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Introduction

The Budget Speech which I am presenting tonight is resolutely directed toward reviving Québec's economy.

This budget, you may be sure, has had to be conceived with a number of very specific imperatives in mind. First of all, I have no intention of raising personal income tax or other taxes paid by individuals above their present level. On the contrary, when the economy is well and truly on the way to recovery we must even consider reducing them. But neither have I any intention of allowing the deficit to escalate. Nothing will be served by increasing today's deficits by mortgaging the budgets of tomorrow.

However, this evening I shall announce a series of measures designed both to increase business investment and facilitate its financing, and to favour its technological development. These measures, combined with the economic plan of action launched by the government at its Mont Saint-Anne meeting last March, should provide the incentives needed to strengthen and hasten the recovery of our economy.

The Economic Situation in 1982

Before moving on to a study of these measures, I feel it is essential to present an overall picture of the year 1982. There has been far too little emphasis placed on what happened during that period, and yet the lessons that we must draw from it are of the utmost importance.

The world economy in 1982 went through the worst crisis since the 1930s. And this crisis was brought about by governments. The fight against inflation induced first the United States government, then others in increasing numbers, to accept a policy of monetary restraint which resulted in interest rates that were so high that finally consumer demand, investment decisions by entrepreneurs and union wage demands gave way under the pressure. This grandiose monetarist exercise, even though it attained the objective of brutally curbing the rate of inflation, brought about a prodigious jump in unemployment in the Western world and major production slowdowns in the industrialized countries.

Of the 24 countries in the OECD (Organization for Economic Cooperation and Development), 14 experienced an increase in national output in 1982 despite the recession. Japan recorded a rise of 2.5 percent — slight in comparison with its past performance but considerable when compared to the rest of the industrialized world — as was expected. Most of the 14 countries whose production went up recorded only marginal rises, often less than 1 percent. Furthermore, in the next six months statistical updates could well bring this figure down even further. Only one country remained unchanged as regards production figures: Norway. As for the nine countries whose output dropped, the figure for the United States was 1.8 percent, for Switzerland 2 percent, and for Germany 1.2 percent; the Netherlands, Belgium, Luxemburg and New Zealand experienced a decrease of less than 1 percent.

Canada was notable for the worst economic performance in the Western world. Overall production dropped by 4.8 percent in 1982, a decrease two and a half times that of the United States.

As for Québec, doubly hit by a dwindling world demand for raw materials and the free-fall of the Canadian economy, its production decline was even more pronounced. We must try to understand why this happened.

First, the world-wide economic slowdown manifested itself in Québec by a major drop in sales of primary products such as wood, newsprint, iron ore, aluminum and asbestos, which occupy a major place in our economy. Suffice it to say that Québec's exports abroad decreased in volume by about 9 percent in 1982 as compared with 1981.

Finally, and above all, the Government of Canada adopted a doubly restrictive monetary policy. Of course, it had to stay in line with the upward thrust of U.S. rates but, in addition, to protect the Canadian dollar already mortgaged by its energy policy, it chose to increase interest rates even more, so that in 1981 Canada found itself with the highest short-term interest rates in the industrial world. Easily understood that investments and the purchase of durable goods plummeted. And the impact of these skyrocketing rates on firms which had to borrow at 25 and 26 percent can be easily imagined.

The effect was felt more swiftly and more deeply in Québec than in the rest of Canada, at least during the last months of 1981 and the first of 1982. Multinational firms resisted credit restraints better than did the small and medium-sized firms. The role played by multinationals in Québec is not as important as in Ontario or the West. Small and medium-sized firms create almost 80 percent of all new jobs here. These firms are often undercapitalized and too deeply endebted toward the banks. When interest rates rose, they quickly reached the limit of their credit lines, so they were forced to lay off staff until their stocks were liquidated.

In September 1981, Canada's economy started to crumble. Only in the beginning of 1983 did the first signs of recovery appear. Of course, inflation was slowed, even though the rate of growth of prices remained higher in Canada than the U.S. rate of inflation. In the interval, however, hundreds of thousands of workers lost their jobs within a few months.

Admittedly, of course, the tax increases imposed in Québec between November 1981 and May 1982 did nothing to help things. But the situation left us no choice. There were some who maintained that these increases had become inevitable because of a wish to keep Québec's credit from falling. And they were right. All the other tax increases — in Nova Scotia, in Ontario and in Manitoba, among others — originated with similar concerns. It is very difficult to ask any provincial government to maintain a sound financial position, free of tax increases, when on the one hand a bad economic situation joins forces with unemployement to dwindle tax revenue and, on the other hand, expenditures increase among other things as a result of high interest rates and the rise in the number of people receiving social aid.

Had Québec had access to a central bank — in short, had it been sovereign — we doubtless would have been able, like the federal government, to double our deficit with no repercussions on the financial markets, and thereby avoid those tax hikes. We could also have chosen not to hurt the economy by applying monetary policies whose effects on inflation, while real, are still debatable in the face of all the unemployment and bankruptcies to which they gave rise. But we are not sovereign, so we had to take action.

To take action in a normal situation, this would have meant to agree with the federal government on what measures would be taken. In February 1982, however, when the economic conference of First Ministers failed so dismally, it was obvious that agreement was not possible. Two weeks later a meeting was held of a number of ministers from Québec and Ottawa. There were some who held that at this meeting Québec was humiliated, but in fact what happened was simply that Ottawa refused to go along with proposals which we had set forth to revive the economy.

Only a year later, Ottawa finally agreed to the essential ideas submitted by Québec for dealing with the crisis. But it was late and, in the meantime, rampant unemployment continued.

In January 1983, the federal government imposed increases in taxes and in unemployment insurance contributions. For Quebecers these were of an amount equivalent to what we had already imposed a year earlier. Thus closed a sorry episode.

In 1982, the gouvernement du Québec rallied such resources as it had available, and nevertheless was able to limit the damage, particularly by three separate steps. First of all, in agreement with contractors and workers in the construction sector, and with most of the financial institutions, we implemented the Corvée-Habitation program, which made possible the granting of reduced interest mortgage loans. Thanks to this program, to which were added contributions from the federal government and the municipalities, housing construction was able to recover more quickly in Québec than in Canada. This type of format aroused much interest, and all who took part in it are to be commended for the results of their labours. Secondly, as interest rates soared, the Minister of Industry, Commerce and Tourism prepared an emergency program of support for businesses. What came to be called the Biron Plan helped almost 500 firms with some 25 000 employees, enabling these firms to avoid considerable slowdown if not shutdown. Because those firms are still on their feet today, they can benefit from the recovery, maintain jobs and even, be it hoped, create new ones. Also, with the help of the federal government, we were able to keep the Pétromont petrochemical plant in operation — a plan which plays a key role in Montréal's economy. Finally, we injected some $160 000 000 into job creation programs which helped over 25 000 people, 17 000 of

whom were receiving social aid; along with this, employment vouchers allowed more than 16 500 young people to gain some experience on the labour market.

1982-1983 Financial Transactions

Now, after that brief look at last year's economic situation, we should analyse the government's financial transactions for the year 1982-1983.

SUMMARY OF FINANCIAL TRANSACTIONS
(in millions of dollars)

	1981-1982	1982-1983		
		Budget Speech	Preliminary results[1]	Change
1. Budgetary transactions				
Budgetary revenue	+17 481,7	+19 670,0	+19 155,0	−515,0
Budgetary expenditure	−20 393,4	−22 655,0	−22 290,0	+365,0
Deficit	− 2 911,7	− 2 985,0	− 3 135,0	−150,0
2. Non-budgetary transactions				
Investments, loans and advances	− 72,9	− 200,0	− 131,5	+ 68,5
Retirement plans account	+ 1 007,3	+ 1 085,0	+ 1 052,6	− 32,4
Other accounts	− 169,0	+ 65,0	− 27,3	− 92,3
Balance	+ 765,4	+ 950,0	+ 893,8	− 56,2
3. Net financial requirements	**− 2 146,3**	**− 2 035,0**	**− 2 241,2**	**−206,2**
4. Financing				
Variation in cash position	+ 207,9	—	− 75,1	− 75,1
New borrowings	+ 2 951,6	+ 2 735,0	+ 2 761,9	+ 26,9
Less: Repayments of borrowings	− 1 013,2	− 700,0	− 445,6	+254,4
Total	**+ 2 146,3**	**+ 2 035,0**	**+ 2 241,2**	**+206,2**

N.B.: A (−) sign indicates a financial requirement and a (+) sign, a source of financing. For the variation in cash position, a (−) sign indicates an increase and a (+) sign, a decrease.

1 The financial data for 1982-1983 are determined on the basis of the results recorded for the period of April 1982 to March 1983 and of an estimate as at April 15, 1983, of revenue and expenditure posted to the lapsed fiscal year, in April 1983, according to the accounting practices in effect.

In the Budget Speech I gave on May 25, 1982, I estimated that the budget deficit would be $2 985 000 000. It would now appear that this figure will be $3 135 000 000. I estimated that the government's net financial requirements would amount to $2 035 000 000. That figure now should read $2 241 200 000. Considering the circumstances, the differentials are remarkably slight, especially when they are compared with what was noted in the budgets of the other governments in Canada, and especially, as everyone knows, the budget of the federal governement itself. In fact, in 1982-1983 — as it did in 1981-1982 — the gouvernement du Québec took the necessary steps to keep both deficit and financial requirements at levels strikingly similar to those which had been announced in the Budget Speeches.

Behind this relative stability, major changes in revenue and expenditure were noted: income tax and employer contributions to the health services fund, for instance, brought in almost half a billion less than anticipated, since the intensity of the recession and the delayed recovery had a powerful effect on employment and wages. And the retail sales tax brought in $194 000 000 less than expected. In the face of extensive unemployment and its attendant fears, consumers tended to repay their debts, to buy fewer durable goods, and to increase their savings. The fuel tax brought in $113 000 000 less than anticipated.

The government's own-source revenue dropped by $874 000 000, as opposed to what had been forecast a year ago. On the other hand, federal government transfers brought in $359 000 000 more than anticipated, including more than $100 000 000 in adjustments from previous years. There are a number of other reasons for this increase, all of them more or less related to the recession. The cost of social welfare climbed, so the federal government's part in financing this program led to an automatic increase in its payments. The transitional equalization guarantee brought in more. Finally, and above all, since the value of the tax point had fallen because of the recession, Ottawa's financial transfers were adjusted. And we must remember that the economic recovery will soon put the brake to these transfers from Ottawa.

Expenditures, for their part, were lower by $365 000 000 than what was forecast in May 1982. Of this amount, some $150 000 000 are attributed to the drop in interest rates. Salary rollbacks in the public sector were slightly adjusted subsequent to Bill 70. Rather than representing $641 000 000 as announced in last May's Budget Speech, they amounted to $511 000 000. However, strikes in the public sector led to a drop in expenditures of $165 000 000, which more than offset the difference.

Finally, it will be noted that total government borrowings, to meet net financial requirements and to repay loans falling due, have come to $2 761 900 000, that is, approximately the amount announced one year ago. This figure is $200 000 000 lower than in 1981-1982 and $600 000 000 lower than in 1980-1981.

In every respect then, and considering the extremely difficult economic circumstances we have experienced, the government has succeeded in maintaining a generally satisfactory financial position. However, it must be acknowledged that this demanded not only tax increases between November 1981 and May 1982 but also strict control over the growth of spending, particularly the remuneration of public sector employees. Inevitably certain of these measures attracted more attention than others but they were all dictated by the same objective and taken in the same perspective, that of allowing the government a real possibility of action to spur recovery, get the unemployed working again and ensure an economic turnaround toward what would appear to be the most promising avenues for the future.

We have still to question certain administrative practices in the public sector, carry on with personnel reductions where there are still too many employees, and query certain spending programs if they are not clearly necessary. On the whole, however, the Legislative and administrative framework of the major and painful cutback measures begun in 1981 is now almost fully established and their effects will make themselves felt over a number of years. The government is therefore in a position to step up its efforts with regard to the economy.

Economic Prospects for 1983

Before going into particulars on the budgetary and financial policies prepared for this purpose, one must look at how the economic situation is likely to evolve in the coming months. The operation is much more delicate than one might think when the economy is changing directions so frequently. One little realizes the extent to which the economic projections made by various institutions have constantly been disproved by actual events over the past two years. However, if one is responsible for a budget, one is obliged to decide among different scenarios of economic forecasts.

What is the economic picture for 1983 as it now appears? First we should note, because of its great importance for Québec, that the situation in the United States has been recovering with remarkable swiftness in recent months. Since mid-1982, housing starts have increased by over 75 percent; in six months the volume of industrial output has grown by 9.6 percent, and leading indicators continue to rise from one month to the next. Unemployment, which is always a few months behind economic activity, has been on the decline for three months.

Business investment undoubtedly remains stagnant. There is still too much capacity underutilized for it to be otherwise.

The main concern at the present time is the extent of the estimated deficit of the United States government. There is no doubt that the slowing decline in interest rates in North America is due to the apprehension of financial circles with regard to the financial requirements that must be met by the American government over the coming year.

The U.S. monetary authorities are in this sense faced with a serious dilemma. They can relax the monetary policy no further. But in that case interest rates will remain at their present level and will thereby slow economic growth. When the inflation rate is 3 percent, interest rates should be about 6 percent, not 10 or 11 percent. Or the U.S. monetary authorities can relax their monetary policy and interest rates will continue their downward slide at least for some time, but eventually, because of the creation of all this money, inflation will pick up again, and then the millions of workers who were thrown out of their jobs in 1981 and 1982, for the sake of fighting inflation, will have suffered in vain. The monetarists, because of the influence they have acquired over governments in recent years, have been able to act as they wished, that is, bring about the most serious depression in the last fifty years in order to fight inflation. If they now had to about face, yield to pressure, and increase the money supply, thus leaving the way open to a resumption of inflation, then we could but admire the stability of a society which, after being thoroughly disrupted by one idea and technique, coped with its opposite, and hardly budged an inch.

The Canadian government and the Bank of Canada have been faced with an even worse dilemma. The Canadian government has, comparatively speaking, a deficit 50 percent higher than that of the United States. In Canada too inflation has been considerably reduced, at least quite recently. The unemployment situation is well known. Woe to any governement that was able to borrow easily from the monetary authorities to finance a whopping deficit and thereby allowed inflation to start up again in a year or two. Those who paid the price of this policy with their jobs could then justifiably feel they had been needlessly sacrificed.

Nonetheless, even with current interest rates, economic recovery is now under way in Canada and in the United States.

In any event, it must probably be recognized that the volume of national output should increase by slightly more than 2 percent in Canada, that is, about as much as in the U.S.,

if 1983 as a whole is compared with 1982. This is hardly remarkable. After all, as I pointed out earlier, output in Canada fell two and a half times more than in the United States in 1982 compared with 1981. In this respect, there is really very little to be proud of.

As economic activity in Québec declined more rapidly, it could take longer to recover. It is expected that Québec's national output in 1983 will be 1.5 percent higher than in 1982. I hasten to add that if the budgetary projections which I will present for 1983-1984 are based on such modest growth, in order to avoid basing anticipated revenues on mere hopes, it seems unacceptable to me to content ourselves with such a rate of growth.

A number of reasons explain such a slow recovery in economic activity. The most important is perhaps the very understandable fear on the part of consumers of losing their jobs. Thus, they attempt to protect themselves from such a possibility. They put off buying a house or a car and, in the short term, are reducing their debts and increasing their savings.

The rate of saving has never been so high. The banks and Caisses populaires have never before been so swamped with cash reserves that they cannot find borrowers.

The problem is one of confidence: confidence in the fundamental evolution of the economy and, or perhaps even more so, in our perception of it.

The Economic Plan of Action

With a view to increasing economic activity in Québec and encouraging confidence in the economy, the government has elaborated an economic strategy for the coming months. First and foremost, this plan of action is designed to offer special support to the development of the private sector, through administrative and financial measures, and through tax measures about which I will speak later. Because of current economic conditions, it also enables the government to support economic recovery through an increase in certain public investments and through jobs creation programs.

Private Investment

It should come as a surprise to no one that the government wishes to reinforce and stimulate activity in the private sector, and particularly investment, to this extent.

It is essential that the level of private investment be rapidly increased. For more than a generation, Québec's share of private investment in Canada has been decidedly too small. This phenomenon is even more obvious in the manufacturing sector. Although the rate of growth in investments in the manufacturing sector in Québec has been slightly higher than in Ontario for more than 10 years, in value they have nonetheless never exceeded more than 60 percent of those in the neighbouring province. For a number of years, it was undoubtedly thought that the construction of schools, hospitals, highways or a few dams would offset the low level of investment in factories. However, in the longer run, it is investment in the manufacturing sector which reveals the imagination of a society and its ability to progress by surpassing competition. More important still, it is a vital sector of the economy by virtue of the ongoing nature of the jobs created, and the wealth generated.

Using what we have learned from the recession which is nearly over, we must now forge resolutely ahead by relying on this new — and increasingly numerous — group of Québec entrepreneurs who have appeared over the past few years without, however, neglecting the major corporations, whose importance in Québec's industrial economy is

still considerable. This opening on the outside world, which has played a decisive role with respect to the growth and transformation of our economy in recent years, must also be stressed.

Four guidelines have been chosen with regard to the strengthening and expansion of the private sector: the selective acceleration of projects particularly in housing construction, the use of our electrical resources as an incentive for industrial development, the Technology Conversion and an improvement in the conditions of financing exports.

Acceleration of Projects

Since the economic summit in Mont Sainte-Anne in mid-March, we have been negotiating with firms of all sorts, on the basis of a new system of subsidies. This system offers companies an amount of assistance, based on the fiscal receipts which would result from the immediate implementation of the projects, which might otherwise have been undertaken much later or not at all. The policy is necessarily discretionary in nature, and will only last until economic recovery attains a satisfactory rate of acceleration. As of tonight, I am allocating, for these purposes, $40 000 000 in additional appropriations, which will generate accelerated investments of some $200 000 000 and should be offset by corresponding revenues. Within two months, spectacular results have already been achieved, especially in the mining sector, where work amounting to some $250 000 000 will begin this summer. The Minister of Energy and Resources will announce details of these investments shortly. It is apparent that the impact of this new policy is considerable, all the more so as, in the specific case of the mining projects I have just mentioned, the investments will be made in regions hard hit by the recession.

Based on the same principle, which has been slightly broadened, we have authorized the Minister responsible for agriculture to immediately launch a program designed to expand the cultivation of grains, which will cost the Treasury some $50 000 000 over three years, generate direct investments and much more in indirect spinoff valued at $130 000 000, create 4 000 job-years and increase Québec's level of self-sufficiency by 70 percent.

In the coming weeks and months, other accelerated investment projects will be announced. Let us point out once again that this policy has been spawned essentially by the recession, and that it will end when economic recovery is sufficiently under way. In the interim as soon as the $40 000 000 in additional subsidies that I am allocating this evening have been expended, I will request further funds from the National Assembly. We have everything to gain by frequently renewing the funds in question.

Housing Construction

One of the most important facets of this acceleration of private investment concerns housing construction. We all know to what extent Corvée-Habitation was a significant innovation when it was launched last summer, and the success it has been.

Following the drop in interest rates, the conditions of the Corvée-Habitation program are beginning to be overtaken by current conditions, and are no longer having the effects they should on housing construction.

Moreover, the federal government's announcement that its $3 000 contribution would no longer be available under the Home Ownership Assistance Program can only further delay the recovery of housing construction. As a result, on the basis of recommendations from the Minister of Housing and Consumer Protection, and following consultations with the board of directors of Corvée-Habitation, I am announcing that the rate guaranteed by Corvée-Habitation for three years will be 9½ percent.

Moreover, an additional grant of $2 000 will be paid under the Corvée-Habitation program to anyone purchasing a new house prior to January 1, 1984. An additional sum of $1 000 will also be paid to the purchaser under the same program, contingent upon an equivalent contribution from the municipality in which the house is built.

With respect to anyone holding a Registered Home Ownership Savings Plan before January 1, 1983, such holders may relinquish the grant paid by Corvée-Habitation and benefit from a special deduction equal to the difference between $10 000 and their previous RHOSP contributions deducted, for the purchase of a new owner-occupied home, after April 19, 1983, just as it is now possible to do so with the federal government. This provision will cease on January 1, 1984.

Moreover, between April 19, 1983, and January 1, 1984, RHOSPs may be used to purchase furniture and household appliances.

The methods of application of measures respecting RHOSPs may be found in the appendix on fiscal measures which is an integral part of the Budget Speech. The conditions of application of the new Corvée-Habitation program and other improvements which will be added to it will be announced shortly by the Minister of Housing and Consumer Protection.

Policies Respecting Electricity

The acceleration in investment is also based on a radical change in electricity rates. This is an area in which Québec, along with a handful of countries, possesses a remarkable advantage in relation to the rest of the industrialized world, in the long and short terms.

Indeed, few places in the world are still able to guarantee an investor considerable quantities of electrical power for at least twenty-five years. Québec is one such place. Moreover, the coming on line of the James Bay complex, the drop in demand for electricity as a result of the recession and a new preoccupation with respect to energy innovation will free huge surpluses of electricity between now and 1990; such surpluses will either be used by new projects, or will be lost.

In the circumstances, the government has decided that during these years electricity will be sold at reduced rates, for the sole purpose of encouraging new investment, to companies for which it figures largely in production costs. The reduction could be as high as 50 percent of the base price. At the moment this new policy is having most effect in the aluminum industry, for this is a sector in which Québec, with Alcan in particular, is already thoroughly committed. We must now go further. The new policy has made it possible to go ahead with the expansion of the Reynolds plant at Baie Comeau, representing an investment of more than $500 000 000. The government is also working with the French firm Péchiney to set in motion plans for an aluminum smelter at Bécancour of twice that size.

Negotiations are in progress with other aluminum companies as well. And finally, the industrial use of aluminum could well result in a number of manufacturing projects. There is already a plant at Ville Lachine for the manufacture of aluminum cans, which will open within the next few months, with the help of a Québec government subsidy.

But it is not only in the aluminum industry that this new rate policy will have the effect of spurring new investment. There are several projects in the chemical industry, for example, which will probably take shape very quickly. It is quite clear that we have in our surplus electricity highly potent industrial leverage.

The Technology Conversion

Along with these operations, the Technology Conversion is gradually gathering force. Although for several years we have had to devote a considerable amount of our resources to modernizing certain industrial sectors that were particularly threatened, the plan of action presented close to two years ago by the present Minister of Foreign Trade calling for a real technology conversion to give solid, immediate support to high technology sectors has now begun to take shape. The future and prosperity of a large part of our economy, which in its openness to the outside world is equaled by few other countries, depend to a great extent on our ability to step up this redirection of our individual and collective resources toward new technologies.

A Minister responsible for Science and Technology has been appointed and within the space of a few months several steps have been taken which testify to the government's determination to give priority to this domain. For example, it has been decided that microcomputers will be introduced into the schools. The program will cost close to $150 000 000 and the first computers will be delivered this fall. The Minister responsible for Science and Technology has announced the creation of computerized design and manufacturing centres — called in the jargon of the trade CAD/CAM centres. Financial support has been provided for the creation of Vidacom, which will produce electronic interfaces. Construction work on a methanol plant at Saint-Juste-de-Bretenière will begin in two months. And attempts are under way to rescue the research personnel of the Ayerst laboratories and get work started once again.

Along the same lines, the Minister of Energy and Resources recently announced the establishment of a liquid hydrogen plant at Shawinigan.

Other projects are appearing here and there which within the next few years should result in substantial changes in Québec's industrial structure in the direction of the modernization so badly needed.

Exports

I mentioned earlier the openness of the Québec economy to the outside world. We export close to 40% of what we produce, and we import 40% of what we consume. Our exports constitute an essential element of our prosperity and a major instrument in the creation of jobs.

We have always left it to the federal government to provide the essential public sector support for exports that is needed here as elsewhere. It is true that for several years the Québec delegations abroad, the Office québécois du commerce extérieur and the Société de développement industriel have made a useful contribution to promoting Québec sales abroad. But now we must do more.

Therefore, last fall we created the ministère du Commerce extérieur whose role and functions have now been established.

There is no doubt at all that we must now commit resources to promoting foreign trade far in excess of those we have invested to date. However effective and competitive certain Québec firms may be abroad, obtaining contracts increasingly depends not only on the price bid but also on financing and payment conditions. The work of federal agencies in this respect is well done. It is essential, however, particularly with respect to the Third World, that we improve financing conditions of our projects in order to be in a better position to land contracts.

Experiences in recent months, with respect, among others, to products related to electrical energy, show the path we must take. It will be the job of the ministère du

Commerce extérieur in the coming year, using resources whose growth will be in proportion to the success attained, to see to the penetration of our products on markets where the high quality of our consulting engineering firms and manufacturers has to date often been slowed by inadequate financing conditions.

The economic plan of action for businesses, which I have just outlined, the principles of which were submitted by the Conseil des ministres two months ago at Mont Sainte-Anne, will entail public expenditures which must be offset by a corresponding increase in revenue. We will not seek to reduce the deficit — or to increase it, for that matter — by new financing or grants programs. The only real result will be increased employment.

Public Investment

It is also important that investments in the public sector be speeded up considerably. In an economic situation of the type we are experiencing, these investments remain a powerful tool for job creation. It must also be realized that, in this respect, the traditional avenues are changing. No longer will many schools be built in Québec — or hospitals, for that matter. We will soon have all the freeways we need. Above all, investments by Hydro-Québec, which three years ago still accounted for 30 percent of all investments in the public and private sectors, are diminishing as work at James Bay nears completion and production capacity surpluses are recorded. New investments in gas distribution only partly offset this deficiency.

So we must stress new avenues of public investment, which will meet the following requirements: they must correspond to needs which have already been identified; they must be for work which we already know must be done sooner or later; next, this work must generally be a nominal drain on the budget, and must be financed in such a way as to increase the present deficit as little as possible, so that only when recovery is well under way will they have a significant impact on the budget.

Given these conditions, we have concentrated our efforts on four sectors: transportation, water purification, investments by Hydro-Québec, and subsidiary agreements between Canada and Québec.

To begin with, the ministère des Transports has been requested to speed up investments with respect to public transportation, the construction of ferries, rural or tertiary roads and building up the fleet of aircraft to be used to fight forest fires. This program should represent $150 000 000 in new investments in 1983-1984.

The first projects for speeding up investments in public transport are slated for Montréal. In contrast with public transport, regional and rural roads programs have not received, over the past years, a comparable continuous support. And I readily acknowledge that imposing a surtax on gasoline did not generate a substantial improvement of the road network in rural and remote regions; I believe however that part of that surtax — in the order of 10 percent of what it brings in — should be used to increase the overall appropriations allotted to that end.

I am announcing tonight, therefore, that two programs will receive $50 000 000 more than the figure which appears in the Estimates tabled last March 29. The first of these programs is designed to link villages in Québec which are not connected already by paved roads to the system of numbered highways. This program should be completed within 18 months, and involve the paving of more than 400 kilometres of roads. It will cost $33 000 000, $25 000 000 this year alone. Where a village is located between two numbered highways and linked to only one of them by a paved road, it will be similarly connected to the other as well. Secondly, $25 000 000 will be added to the grants made for the municipal road network.

Essentially, the work which will be generated by these two additions will be concentrated in regions strongly affected by unemployment.

With respect to the program for buying CL-215s to fight forest fires, the federal government announced in the Budget Speech on April 19 its intention to acquire four aircraft for use in the Northwest Territories and the Yukon. It also committed itself to buying a number of aircraft equal to that purchased by the provinces, up to a total of sixteen. Québec already has a large fleet of such aircraft. The gouvernement du Québec has announced that it will buy four more such aircraft. When we add Québec's order to Ottawa's, the total comes to twelve aircraft, even before the other provinces have decided. The assembly line at Canadair should thereby keep running next August.

The next avenue is water treatment. Québec has lagged behind in this area to an astonishing degree. As a Member of this Assembly, I was able to witness a few weeks ago that my 65 000 constituents had been deprived of drinking water for several days. In a country like ours, at the end of the twentieth century, we must be able to do more than just wax lyrical about all our lovely lakes and streams, or paint beautiful pictures of them. We must also be able to drink what is in them. Certainly over the past few years we have tried to set up a comprehensive program in this regard, but we must admit it: this program is still not enough, and relations between the ministère de l'Environnement, the Société québécoise d'épuration des eaux and the municipalities have not made things any easier.

The government has asked that additional work be done, totalling $140 000 000 over what had been intended for 1983-1984. The Minister of the Environment has simplified procedures, and acceleration has already started.

The government has also asked Hydro-Québec to prepare an additional investment program of some $200 000 000 for 1983-1984. There is no question, to be sure, of increasing the electricity production capacity, but rather of speeding up certain investments or work, including, among others, programs for maintaining the distribution system. Let us remember that for some years, the financial requirements necessary for the James Bay work sites have brought about a relative reduction of the resources allotted to these programs. In addition, major investments will be made this year with a view to converting industrial energy systems from oil to electricity.

The fourth avenue for speeding up public investments has to do with the use of balances available under subsidiary federal-provincial agreements. The formula, however, is more risky, and some explanations are in order. A number of agreements signed by both governments provide for sharing the cost of a whole series of projects related to highways, tourism, industry, and the like. Most of these agreements were signed for five years, and will expire on March 31, 1984. It goes without saying that, after four years, a number of projects designed long ago have not been carried out, either because they have proven to be illusory or not necessary, or because one of the governments, for reasons which were often valid, decided not to proceed with them. This is why there is now a balance of over $100 000 000 remaining under these agreements — money which would probably not be spent between now and the end of the year and which would then disappear. Under the aegis of the Minister responsible for Planning and Regional Development, who also has charge of administering these subsidiary agreements, a list of new projects has been drawn up. These projects will replace those which have lapsed but are still based on the same objectives. These programs are often of considerable importance at the local or regional level, and I can only wish that the federal government will agree to join forces with us in using up all the money available within the framework of those agreements.

Job Creation Programs

Finally, to the government's economic plan of action must be added the job creation programs. These are intended primarily to get tens of thousands of unemployed persons, and social aid recipients, back to work, and to provide jobs for many young people as yet unable to find them. To be sure, a number of the jobs created by these programs are only temporary. Nevertheless, they lead to permanent jobs for a number of jobless, and in particular the pilot community job creation program called PECEC was responsible for the creation of a number of firms, of which an impressive proportion survived the crisis without damage; $235 000 000 will be allotted to these programs this year, and over 60 000 people will benefit from them.

Finally, in order to sustain activity in two of our principal industries, I am announcing this evening that an additional $5 000 000 will be devoted to promoting the tourist industry, and an equivalent amount will be set aside for speeding up the reforestation program, especially the expansion of nurseries.

I shall close this examination of the economic plan of action with a few observations on our present relations with the federal government. The Budget Speech given on April 19 in Ottawa confirmed that the proposals so frequently made by Québec for fighting the recession have now been accepted. For the first time in some years, the two governments are on roughly the same wave-length. As long as the people of Québec do not give us the mandate to withdraw from the present political system, we must take advantage of this situation. If all those unemployed are to be put back on the labour market, and if the economy is to be revived, this is a necessity. I was acting in the name of common sense, therefore, when I offered to collaborate actively with Ottawa so that decisions from both levels of government could be taken swiftly.

Fiscal Policy

Unlike the federal government, however, I have no intention of raising, tonight, the tax burdens above its present level, for the next three or four years. Nor have I the intention of announcing any major increase in the deficit. Now what fiscal policy do I intend to follow?

Consumer Taxes

With regard to consumer taxes, let us begin with two decisions which, following last year's Budget Speech, must be announced tonight. They deal with the retail sales tax and the telecommunications tax. I shall also discuss the fuel tax.

Last year, it seemed inevitable to increase the general sales tax, and the telecommunications tax, from 8 to 9 percent. That rate would stay in force until the end of the fiscal year: March 31, 1983. In a ministerial statement, I announced that the same rate would apply at least until tonight. I now announce that it will not be reduced.

Later, when we have the means, we shall have to determine whether we shall pursue the policy implemented a number of years ago, that of exempting certain essential products such as clothing, footwear, textiles, furniture and basic electric appliances, or whether we will rather reduce the sales tax.

For the time being, certain new exemptions will come into force at midnight tonight. These are not as important as those of past years: covered will be an entire range of assorted commodities which range from hygienic products to rolling stock in the mining and forest sectors. A description is given in the appendices.

It will be noted, however, that an additional tax of $2 will be added to the sales tax on every blank videocassette of less than 19 millimetres in width. This tax, too, will come into force at midnight tonight. It will contribute to improve copyrights protection.

In addition, the fuel tax will be kept at its present level of 40 percent of the retail fuel price. This tax was raised from 20 to 40 percent on November 18, 1981, a step which swelled the public Treasury by some $600 000 000 during 1982-1983. There is no way in which we can let such an amount go by uncollected at this point.

It must be acknowledged that the increased price of gasoline brought about by the surtax speeded up the switch to smaller cars which used less gas and thus helped save more energy. Along with the new Highway Safety Code, this surtax also contributed to reducing speeds on the highway. The results as far as accidents are concerned, especially serious accidents, have been spectacular. Indeed this is why automobile insurance premiums for bodily injury have increased only slightly over the last years. Finally, the increase in the fuel tax resulted in a welcome drop in the use of « super » gasoline. Québec had been consuming, proportionately, three times more of this gasoline than the rest of Canada. In this manner also, Quebecers were able to lighten the additional burden of the surtax.

I do acknowledge, however, that the increased fuel tax created problems for service station operators in border regions — problems which we sought to attenuate through a compensation formula. On the strength of our experience, I think it is necessary to amend this formula, and to enhance it. Specific provisions in this regard will come into force tonight; they appear in the appendix on fiscal measures and will increase the financial assistance to the service station operators in the border regions by some $6 million.

In addition, the tax applicable to propane gas used as fuel will be reduced to the effective rate of the fuel tax as of midnight tonight.

Income Tax

With respect to personal income tax, we all know that for some years certain groups have been attacking both the general level of that tax and its progressive nature. The most frequently recurring argument is that management staff in Québec is taxed more heavily than in Ontario. The government, and rightly so, maintains for its part that for some years now it has succeeded in bringing the income tax burden of taxpayers taxed as married persons and earning the equivalent of the average industrial wage, or less, to a level close to that of Ontario and sometimes below it.

Moreover, I have ashed that Québec's entire income tax structure be re-examined, but within a broader framework than is generally used. It is a known fact that, for years, successive governments have introduced various programs to help the taxpayer. Frequently, the generosity of these programs has varied in inverse proportion to income earned. Furthermore, the benefits under some of these programs are taxable, while others are not.

And what comes of all this? It is becoming increasingly difficult to compare the real tax burden from one province to the other but, above all, we can no longer determine the real taxation rate to apply, as incomes become higher.

Now a little folk wisdom: when income goes up, taxes do too, while benefits decrease. So what advantage is there for the jobless or the social aid recipients to go back to work — even when work is available? Also, the argument goes, being promoted carries no great financial incentive, even though the starting salary may be quite low.

Such reactions are serious, and merit re-examination. After all, any society must be able to acknowledge that work has a certain pecuniary advantage and to promote it. If

managers are to be motivated, the way in which they are taxed assumes great importance. And the system applied to ordinary workers is just as important, for the same reasons.

In a serious recession like the one we have just experienced, our taxation and social systems protect those who lose their jobs better than the systems of many other countries. But once the recovery progresses, it becomes obvious that, for many people, the return to the job market — especially when it is official, signed and sealed — can present little pecuniary interest. And naturally, the attraction of under-the-counter work becomes proportionately greater.

In this context, it is my intention to table a white paper next autumn on the taxation of individuals. At the same time, this will examine all the tax or social programs related to the tax structure and will contain a number of recommendations covering overall taxation of individuals — from the bottom rung to the top of the ladder. This white paper will be based on certain simple principles.

Among others, an effort will be made to ensure scales which will provide an incentive to work and to increase income, but which will have maximums more compatible with what is in force elsewhere in North America.

Once the white paper is published, there could be a public debate on it, and decisions on reforming the system will be announced in the next Budget Speech.

In the meantime, however, measures must be taken with regard to the rates to apply to the indexing of personal exemptions on January 1, 1984. Everyone knows that for some years we have used a rate of 7.5 percent each year. The federal government lowered its own indexing rate, which applies both to exemptions and to the tax table, to 6 percent, on January 1, 1983, whereas Québec was still applying a rate of 7.5 percent. For January 1, 1984, the federal government has confirmed a rate of 5 percent. Taking account of the clear drop in the rate of inflation, I am announcing that Québec's rate will also be 5 percent. The basic personal exemption will thus be raised to $5 280, and the married person's exemption, to $3 960. Age exemptions for those over 65 will be changed to $2 200.

The list of other personal exemptions for 1984 is given in an appendix. It will be noted that in no case will a married couple taxed as such pay any tax on the first $9 450 of income, and that no couple over 65 years of age will pay any tax on the first $14 460 of income.

Taxation of Businesses and Investors

If the major decisions regarding income tax are made next year, the same cannot be said about the various amendments to the tax system applicable to business firms and to taxpayers' investments into those firms. Decisions must be made now, while the economic recovery is just beginning, and a great number of firms are emerging from the recession in a precarious financial position. It is also important that, over and above the funds allotted to the Technology Conversion, a certain number of tax measures stress even further those priority sectors of technological research and development.

A year ago, it became obvious that one effect of the recession would be to increase the indebtedness of Canadian businesses considerably. In Québec, where businesses have always been undercapitalized, this phenomenon is even more noticeable, and explains the number of bankruptcies we have witnessed. The emergency plan for financing businesses, set up in 1982 and to continue in 1983, has made it possible to come swiftly to the aid of hundreds of manufacturing firms by increasing their borrowing capacity and

reducing their costs of borrowing. In this sense, the Biron plan arrived on time to avoid an even greater erosion of Québec industry.

Still, the problem of business undercapitalization remains endemic. Quite obviously, on the one hand, firms must be increasingly encouraged to augment their share capital and, on the other, individuals must be encouraged to buy stocks. Québec has already done some innovating in this regard, with the creation of the stock savings plan. This program cost the public Treasury $40 000 000 in 1982-1983, and it made possible investment in stock of some thirty firms, at the same time resulting in a considerable drop in the amount of taxes paid by taxpayers in high income brackets.

The fact remains that, with use, the stock savings plan was not as useful for the businesses — as opposed to individuals — as it might have been. Some ten major firms, which in fact have no need of the stock savings plan for selling their securities, mobilized the greater share of the issues, while the small and medium-sized firms did not take as much advantage of this as might have been imagined at first. The problems of undercapitalization apply much more to these firms than to the big banks or to holding companies such as Canadian Pacific Enterprises.

So we must change our priorities. The new Securities Act has come into force, and already this has greatly facilitated the preparation of share issues by small and medium-sized firms. The taxation system will enhance this flexibility.

Tonight, then, I am announcing the following measures. Preferred shares issued by a developing corporation after the Budget Speech is given, which are non-redeemable but convertible into common shares at the discretion of the holder, will now qualify for a stock savings plan.

The notion of the developing corporation is described in the appendix on fiscal measures. Essentially, a developing corporation is one whose assets total between $2 000 000 and $25 000 000, or one whose assets total $2 000 000 or less, but which primarily operates businesses of a community nature recognized by the government.

In addition — and here is a major change — all shares will not be equally eligible for the plan. Shares issued by a firm whose assets are in excess of $1 000 000 000 will only qualify for a deduction at the rate of 75 percent of their cost for 1984 and 50 percent for 1985. Shares issued by developing corporations will qualify for a deduction at the rate of 150 percent of their cost as of midnight tonight. Finally, other shares issued will continue to qualify for their full value, as is the case now.

Moreover, for the 1983 taxation year, the ceiling of investments eligible for the stock savings plan will remain limited to 20 percent of income but will now apply to total income rather than to earned income: income from investments, and not only labour income, will also qualify for the stock savings plan. The maximum of $15 000 will be increased to $20 000 beginning in 1984.

Of course, firms must be encouraged to issue shares. Certainly under the stock savings plan they can sell shares to their present share-holders or employees. Nevertheless, once a firm grows to a certain size, the most effective way of financing by shares is by making issues to the public.

Public issues are prey to a number of obstacles. Some firms are controlled by families, or by limited groups of partners. Their owners want to keep control over operations and not to have to answer to anyone but themselves — a human reaction, to be sure, and one we can do nothing about.

In a number of other cases the reasons are financial. Despite the simplifications introduced in the Securities Act, the costs related to the feasibility study of an issue and

the brokerage fees are so high that they could eat up a considerable share of the proceeds of the first issue by a small firm.

The cost of a first issue, however, is much more affected by what could be called the cost of entry onto the public market. That expression is related to a phenomenon which I shall now describe: a firm makes its first issue. Until that time the stock has been unknown, but purchasers buy it. They will naturally insist on some sort of discount on the real value of the stock.

In order to eliminate the problems I have just described, and encourage firms to strengthen their financial base, thereby increasing their growth potential, I am announcing that, beginning tomorrow, every developing corporation which wants to make a first public share issue will qualify for two types of grants. Studies on the feasibility of this type of issue will qualify for a grant of up to $10 000, and which is equal to one-half of the cost incurred. Secondly, the entry cost for a first public share issue, which I have just described as a discount on the shares and the issue fees, will be offset in the following manner. The government will pay the eligible firm a grant equal to 75 percent of the first $200 000 of paid-in capital on eligible shares of a first public share issue, 50 percent for the amount between $200 000 and $400 000, and 25 percent for that in excess of $400 000, but not exceeding $1 000 000. The program will be administered by the Société de développement industriel du Québec.

There you have some new means of encouraging firms to engage more resolutely in stock financing. In this way we hope to act on supply of shares and the stock savings plan seeks to act on demand.

There is perhaps nothing in the measures which have been announced this evening to facilitate and stimulate the secondary share market. Nonetheless, I have been receptive to the representations which have been made to me by the authorities of the Montréal Stock Exchange with a view to granting special tax benefits to what are called the market sustainers. Details of such benefits will be defined, with representatives of the Stock Exchange, in the coming weeks, and will apply to the market sustainers' fiscal year beginning after the day this Budget Speech is delivered.

Moreover, and more importantly, it must be determined whether we are to bring our measures into line with those announced by the federal Minister of Finance with respect to the new taxation scheme for capital gains of the shares of Canadian compagnies bought on the primary and secondary markets. The measures proposed by the federal Minister consist in taxing only the capital gains which exceed the rate of inflation. Elaborate legislation will be required to implement this system. Furthermore, the registration and the control of transactions will require increased paper work. I do not intend to embark upon such a course of action. I am announcing, therefore, that as of the day on which the new federal system comes into effect, any share belonging to a Quebecer which is registered in a federal Indexed Security Investment Plan (ISIP) will no longer be subject to tax on capital gains and losses under the Québec Taxation Act. This will further encourage taxpayers to hold shares and will facilitate the development of a secondary market with respect to corporate shares.

Before concluding all these attempts to induce Quebecers to acquire, hold and trade corporate shares, thereby improving their capitalization, I would like very much to say a few words about the project of the Fédération des Travailleurs du Québec aimed at creating a Fonds de Solidarité to which the workers and the funds they control would subscribe, and whose purpose would be to invest in the venture capital of companies. The government welcomes this project enthusiastically; the tax benefits which must accompany it are being actively discussed. I intend to ensure that the workers find advantages in this project which are as appreciable as those which I am announcing this

evening in a broader framework. Despite the considerable savings which it generates, Québec's economy has, until now, been too lacking in venture capital for us not to take all necessary steps to at last create a climate which encourages all Quebecers to build a stronger, more competitive economy which they own, after the shock of the recession.

The efforts thus deployed to improve the capitalization of businesses must be accompanied by adjustments in the general tax system affecting businesses and their social benefit contributions.

The overall taxation of companies has presented problems for about a year. The reform of the taxation of business was not poorly received in 1981. Of course, employers' contributions to the health services fund increased by 1.5 percent of the payroll to 3 percent, and the tax on capital rose by 50 percent, that is, from 0.30 of 1 percent to 0.45 of 1 percent. On the other hand, tax on profits was reduced from 12 percent to 3 percent for small businesses, and in stages from 13 percent to 5.5 percent for big companies. Tax on the profits of corporations as a whole are not as low anywhere else in Canada.

Companies must still make profits in order to appreciate the merits of such a system. When they do not make profits, they naturally only see their contributions to the health services fund and the tax on capital, which are a sort of fixed charge.

In order to lighten the load of the considerable number of companies which have accumulated losses during the recession, I am indicating, first of all, that I will bring our tax legislation into line with the extension of the period of loss carryovers announced by the federal Minister of Finance last April 19. Moreover, I intend to increase the refundable tax credit of a corporation which sustains a business loss. At present, this tax credit is 3 percent of this loss, up to the amount payable as tax on capital. This limit is tripled with respect to losses incurred in any taxation year ending as of tomorrow.

The combination of the concordance with the federal declaration and the increase in the limit of the tax credit will enable companies to reduce their tax burden by $20 000 000 in 1983-1984.

We must now broach measures respecting three exceptionaly important sectors: companie engaged in research and development, specialized service companies which have to employ Québec workers abroad, and the international operations of financial institutions. These are all businesses which have, in recent years, acquired considerable importance for the development of Québec, and with respect to which tax benefits may hasten the development.

It is a truism to assert that the Canadian economy, like that of Québec, does not devote sufficient funds to research and development. Because such an appreciable number of Canadian firms are controlled by foreign interests, this situation is understandable. In fact, subsidiaries obtain no advantages by participating in the research sector. They must either have an obvious financial interest in doing so, or domestic companies must do so in their stead.

With a view to ensuring this financial interest, I am announcing that with respect to research and development expenses incurred beginning tomorrow, a refundable tax credit will be implemented, equivalent to 10 percent of the total payroll devoted to R & D in Québec by any corporation. The refundable nature of this tax credit implies that even if a company does not make a profit in a given year, 10 percent of the total payroll which it devotes to research and development will be paid by the government. The details are given in an appendix. This measure will cost the Treasury $26 000 000. It seems to me that, following the introduction of such a measure, no company established here will find it financially advantageous to conduct its research outside Québec.

We also know to what extent Québec professional service companies, particularly consulting engineering firms, have so admirably succeeded in penetrating foreign markets. I mentioned this fact earlier. These firms use the services of a great number of Quebecers who agree to leave home for varying period of time in order to build the telephone installations, technical schools, dams or factories which Third World and, increasingly, industrialized countries are buying in Québec.

To carry out their contracts in other countries, Québec companies must be able to find it advantageous to employ the greatest number of Quebecers possible. It is entirely in the interests of Québec that many of its citizens have expertise acquired around the world. Those who seek this expertise do not benefit, while they are abroad, from most of the public services which are available here. Therefore, it is normal that the taxes they must pay in Québec be reduced during their sojourn overseas. We have already taken some steps in this respect; it is time to take more.

I am therefore announcing that, as of midnight tonight, any wage earner who is a resident of Québec and who leaves Canada to work abroad for an employer, who resides in Canada, or for a foreign subsidiary of this employer, will be exempted from tax on his income earned abroad in proportion to the number of full months that he works abroad, so that after twelve months, he will be completely exempt from paying tax on this income. Indemnities for working in other countries will be totally exempt if they amount to less than half of the basic remuneration.

Thus, Québec companies will possess a tax status for their employees which will make them more competitive with European, U.S. or Japanese concerns with which they must compete for contracts.

Moreover, in the realm of international transactions, I have already indicated that the gouvernement du Québec completely supports the proposed creation of an international banking centre in Montréal. The federal government is not forthcoming in giving its response in this regard. In order to increase pressure on it, I am announcing that I am prepared to remove all taxes on capital, income taxes and employers' contributions to the health services fund which come under the authority of the gouvernement du Québec, and which would be directly linked to the international transactions of the institutions of such a centre, as soon as the federal government does the same.

I will now conclude the presentation of the main tax measures which are addressed to businesses, to which are added several other modifications set out in an appendix. Let us mention, among other things, the tax relief which will be implemented in order to encourage mining exploration and foster film production in Québec.

Succession Duties and the Gift Tax

We must now turn to a subject which is very controversial in some quarters: succession duties. Québec is the only province in Canada to have preserved this form of taxation. Taxes of this sort are found throughout Europe and in many states in the United States. Nonetheless, because such duties do not exist elsewhere in Canada, the Minister of Finance is constantly being asked to abolish them. Reducing the burden of this tax and increasing the exemptions applicable to it has not mitigated the pressure.

I have once again examined this question and it still seems, in terms of social fairness, that such a tax must remain. It brings in some $50 million a year, and could readily be replaced by another form of taxation. However, as we have never agreed to tax capital gains to the same extent as labour income and, as we seek — and rightly so, in my view — to reduce the effect of capital gains on the holding of certain types of securities such as shares, it appears normal to me to maintain a tax on capital accumulated at the moment of death.

Nonetheless, I am open to making changes. First, the exemption available to each child or relative of the deceased which, up until now, was $85 000, is increased to $100 000 for estates opened after midnight tonight. This is not a major change, and inflation during the past three years fully justifies this increase. I am also announcing an increase from $15 000 to $20 000 in the exemption from duties on legacies to third parties.

With respect to the gift tax, the maximum exemption will increase from $3 000 to $5 000 per beneficiary per year, and the total annual exemption on gifts made by a person will increase from $15 000 to $25 000.

Deductions respecting gifts of agricultural property will also be raised. Currently, an individual may make a gift of property used for agricultural purposes to his children, up to a maximum of $75 000. As of 1983, it will be possible to make a total, non-taxable gift of $100 000 to this children, in two instalments. This exemption will be extended to include interests in a farm partnership.

I also intend to introduce an additional mechanism concerning the payment of succession duties. As of now, anyone wishing to avoid having his heirs pay these duties may, at any time up to his or her death, make gifts fo either of two foundations which will be established, the first of which will be devoted to research and development, and the second to the arts and culture. These endowments will enable the heirs to obtain a 90 percent credit against the succession duties payable. The testator will be quite free to choose the field to which his contributions will be assigned. Thus, for exemple, it will be possible to choose a scientific discipline among all sectors of research. Both my colleagues, the Minister responsible for Science and Technology and the Minister of Cultural Affairs, will shortly publish the regulations which will apply to each of these foundations.

Any gift to either of these foundations will reduce the amount of tax on income and on estates by as much as 150 percent of the amount of the gift. It will thus be possible to avoid paying succession duties, or having one's heirs do so, while contributing to the development of two major sectors in the life of our society which have never received sufficient resources, and which must, in many respects, be protected from often insistent demands from other sectors.

Other Tax Changes

The Appendix to the Budget Speech includes a long list of minor, although sometimes essential, changes which are made in our tax legislation. It would be fastidious to read this list before the National Assembly. I will simply mention that improvements are introduced with respect to the taxation of elected municipal representatives, and in the Québec Licences Act. Moreover, changes are also provided for with respect to the financing of political parties and the sale of alcoholic beverages in grocery stores. There are also measures designed to make Québec taxation policies compatible with those of the federal government.

I must mention that a number of these changes are the result of requests put forward by groups, associations and individuals. It goes without saying that not all such suggestions were retained.

Because such suggestions make it possible to render the tax system more equitable and improve its operation, I sould like to of thank all those who made proposals. I trust they will be more and more numerous in the coming years.

Financial Framework

We now come to the last part of this Budget Speech, which deals with the projected financial framework for 1983-1984, and the prospects related to this framework for the next two years.

As I have already indicated, it has been assumed that recovery in 1983 will be barely sufficient, for on the average, the gross domestic product to increase by 1.5 percent in relation to that in 1982. Our forecasts are also based on a rate of inflation determined by the cost of living index, slightly less than 6 percent. It is obvious that on the basis of the rate of growth predicted, the rate of unemployment in Québec, on the average, will be essentially the same in 1983 as in 1982, although it should improve at the end of the year. The return to the labour force of a considerable number of workers who had gradually withdrawn from it in the past year and a half will keep monthly unemployment figures at high levels for some time, although, the number of jobs should gradually increase.

On these bases, and including the budgetary and tax changes which have just been announced, we may outline the following financial framework for 1983-1984.

STATEMENT OF FINANCIAL TRANSACTIONS, 1983-1984
(in millions of dollars)

1. Budgetary transactions		
Budgetary revenue	+21 110	
Budgetary expenditure	−24 295	
Deficit		−3 185
2. Non-budgetary transactions		
Investments, loans and advances	− 135	
Retirement plans account	+ 1 085	
Other accounts	—	
Surplus		+ 950
3. Net financial requirements		**−2 235**
4. Financement		
Variation in cash position	—	
New borrowings	+ 2 935	
Less: Repayments of borrowings	− 700	
Total		**+2 235**

N.B.: A minus (−) sign indicates a financial requirement and a plus (+) sign, a source of financing.

Own-source revenue will increase by 9.1 percent, while federal transfers will rise by 13.2 percent. All told, budgetary revenue will grow by some 10.2 percent. Following the serious cutbacks which have been undertaken up until now and the decline in interest rates and inflation since the tabling of the Estimates last March 29, expenditures should not increase by more than 9 percent, that is, at the same rate, on the basis of the government's fiscal year, as the gross domestic product in current dollars.

Under such conditions, the budget deficit should be $3 185 000 000, approximately what it was in 1982-1983. As the balance of the non-budgetary accounts will be some $950 million, the gouvernement du Québec's net financial requirements should not exceed $2 235 000 000, which is essentially the same amount as during the past three years. Because of the increase in revenue and inflation, the relative weight of net financial requirements is decreasing regularly.

Given the considerable concern aroused by the deficits and net financial requirements of the gouvernement du Québec since 1980-1981, it may be useful to see how we are currently faring in this respect. An Appendix contains a comparison of the net financial requirements of all the Canadian provinces in 1982-1983, at the end of the year. It will be noted that the Québec government ranks ninth, per capita, that is, that eight provinces currently have net financial requirements higher than those of Québec.

The moderation brought to bear on increases in our expenditures and reluctant increases in taxes have enabled us to achieve this result. With a little imagination, we have been able, in recent months, and increasingly so during the course of 1983, to intervene much more vigorously with respect to the recovery of businesses and the economy.

Conclusion

Will we reach a point where it will be possible to start lowering taxes once again, a move very firmly launched in 1978, but which had to be cancelled since the recession began? On the basis of the white paper which will be presented next fall, will we have the means to reduce the tax burden of Québec taxpayers?

There is only one manner in which we may correctly answer this question: by establishing a projection of government revenue and expenditure for a period of several years.

Last year, for the first time, I presented a three-year projection of the financial framework in the Budget Speech. The exercise is a dangerous one, insofar as considerable risk is involved in publishing data which, in practical terms, prove to be inaccurate. It is not easy to determine the rate of growth of the economy or interest rates two or three years in advance. Nonetheless, such an exercise makes it possible to at least assess the system's internal dynamics, and determine whether or not we are on the right track. The Appendix to the Budget Speech contains the prospects of the gouvernement du Québec's financial position, which incorporate the decisions which have just been announced. What they reveal, in short, is that by leaving the current tax structure and existing expenditure programs unchanged, and by assuming a 4.7 percent real growth rate in the economy in 1984, and 2.9 percent in 1985, the deficit would be $3 200 000 000 in 1984-1985 and $2 900 000 000 in 1985-1986. Net financial requirements would amount to $2 200 000 000 in 1984-1985 and $1 700 000 000 in 1985-1986.

Thus, it is to be noted that the governments net financial requirements are now decreasing, and that it will have some elbow room in the coming years. In answer to the question asked earlier, it may be said that there will indeed be a possibility of beginning once again to reduce the tax burden, even with relatively modest growth in the economy.

Obviously, if growth is more rapid than that which I have taken into account up until now, the possibility is even greater. As I mentioned earlier, it will depend upon our ability to mobilize energies in the public sector in order to accelerate its investments, an improvement in relations between the social partners, support given by the government to private investment and exports, increases in productivity and the rapid introduction of new technologies, so that the confidence of businesses and consumers is strengthened and the rate of growth accelerated.

It might then be possible to replace the modest projections and ambitions with a considerably more ambitious program: that of embarking vigorously upon a policy of full employment. In order to do so, we must first make credible Québec society's ability to surmount the recession and ensure economic recovery. This is the challenge of the coming year. We have everything to gain by taking up this challenge.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
BUDGETARY REVENUE
1983-1984 ESTIMATES
(in millions of dollars)

1. Income and property taxes	
Personal income tax	7 075
Employers' contributions to the health services fund	1 425
Corporation taxes[1]	798
Succession duties	40
	9 338
2. Consumer taxes	
Retail sales	2 158
Fuel	1 266
Tobacco	312
Meals and hotels	273
Other[2]	99
	4 108
3. Duties and permits	
Motor vehicles	269
Alcoholic beverages	66
Natural resources[3]	95
Pari-mutuel	34
Other duties and permits	69
	533
4. Miscellaneous revenue	
Sale of goods and services	270
Interest	271
Fines, confiscations and refunds	105
	646
5. Transfers from government corporations	
Société des alcools du Québec	335
Société des loteries et courses du Québec	175
	510
Total own-source revenue	**15 135**
6. Government of Canada transfers	
Equalization	3 113
Other transfers related to fiscal arrangements	1 504
Contributions to welfare programs	1 007
Other programs	351
Total Government of Canada transfers	**5 975**
Total budgetary revenue	**21 110**

1 Includes tax on corporation profits, on capital, and on insurance premiums.

2 Includes tax on telecommunications and broadcast advertising.

3 Includes forest, mining and water resources.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
BUDGETARY EXPENDITURE[1]
1983-1984 ESTIMATES
(in millions of dollars)

Departments	
Affaires culturelles	127,2
Affaires intergouvernementales	50,6
Affaires municipales	421,3
Affaires sociales	5 342,1
Agriculture, Pêcheries et Alimentation	432,5
Assemblée nationale	58,7
Commerce extérieur	18,2
Commission administrative du régime de retraite	688,8
Communautés culturelles et Immigration	43,9
Communications	158,6
Conseil exécutif	158,8
Conseil du trésor	9,0
Éducation	6 342,2
Énergie et Ressources	282,0
Environnement	122,2
Finances	2 473,2
Fonction publique	165,0
Habitation et Protection du consommateur	308,6
Industrie, Commerce et Tourisme	251,5
Justice	619,9
Loisir, Chasse et Pêche	211,2
Main-d'oeuvre et Sécurité du revenu	2 496,7
Régie de l'assurance-maladie du Québec	1 325,3
Revenu	212,3
Transports	1 647,4
Travail	21,4
Travaux publics et Approvisionnement	306,4
Total budgetary expenditure	**24 295,0**

1 RECONCILIATION OF ESTIMATED BUDGETARY EXPENDITURE WITH ESTIMATES TABLED FOR 1983-1984
(in millions of dollars)

Estimates tabled		24 300,0
Plus:		
Additional expenditure announced in the Budget		
Strengthening and expansion of the private sector	40,0	
Rural roads	25,0	
Municipal roads	25,0	
Promotion of tourism	5,0	
Speeding up of reforestation program	5,0	
Grants for the first public share issues of developing corporations	4,0	104,0
Less:		
Effects of revised economic forecasts		
Remuneration and benefits	52,0	
Public debt service	57,0	– 109,0
		24 295,0

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
NON-BUDGETARY TRANSACTIONS
1983-1984 ESTIMATES
(in millions of dollars)

1. Investments, loans and advances			
Enterprises of the gouvernement du Québec			
Share capital and invested capital			
Sidbec		—	
Société générale de financement (S.G.F.)	–	20,0	
Société nationale de l'amiante (S.N.A.)	–	11,2	
Société québécoise d'initiatives pétrolières (SOQUIP)	–	30,0	
Other	–	22,3	
			– 83,5
Loans and advances:			
Sidbec	–	40,0	
Office du crédit agricole du Québec	+	10,5	
Société d'habitation du Québec (S.H.Q.)	–	1,3	
Other	+	5,9	
			– 24,9
Total enterprises of the gouvernement du Québec			– 108,4
Individuals, corporation and others			– 26,6
Total investments, loans and advances			– 135,0
2. Retirement plans account			
Employer and employee contributions		+1 460,0	
Benefits and other payments		– 375,0	
Total retirement plans account			+1 085,0
3. Other accounts			—
Surplus non-budgetary transactions			**+ 950,0**

N.B.: A minus (–) sign indicates a financial requirement and a plus (+) sign, a source of financing.

APPENDIX I
Fiscal Measures

FISCAL MEASURES

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ECONOMIC DEVELOPMENT

CAPITALIZATION OF CORPORATIONS

The Corporation

In order to encourage developing corporations to increase their equity base by offering shares to the public, a financial assistance program for entry onto the market has been introduced.

This temporary aid program, which will be administered by the Société de développement industriel du Québec, is intended first to repay part of the costs of feasibility studies relative to a first public issue of shares, as well as part of the costs of entry onto the market and the costs of such issue.

Feasibility study costs for a first public share issue are those related to assessing the market value of the corporation, studying the financing of a public issue of shares and evaluating the feasibility of issuing shares on the public market. The amount of the assistance in this case will be 50% of these costs, up to $10 000.

Corporations which make a first public issue of shares on the public market, in addition to paying brokers the costs of the issue, are usually placed in a position in which, more or less unknown to investors and offering securities not readily cashable, they must issue their shares below their real value, this difference constituting their entry costs. In order to cut down to a minimum the structural obstacles in the way of their entry onto the public market, the first public issue of shares on the primary market will be eligible for assistance amounting to:

- 75% for the first $200 000 of the paid-in capital of eligible shares from a first public issue of shares;
- 50% for such eligible shares between $200 000 and $400 000;
- 25% for such eligible shares above $400 000 but not over $1 000 000.

The proceeds from a public issue of shares that has benefited from such assistance must be used by the corporation for the purposes of carrying on an eligible business. In addition, the amount of assistance will be paid only when the proceeds from the issue have been realized, and this must occur within 12 months from the time the Société de développement industriel approves the issue.

In this way, developing corporations which obtain financing for the first time by means of a public share issue will be able to reduce all their costs caused by such financing by an amount of up to $410 000 for the first public issue of shares equal to or more than $1 000 000.

For the purpose of this program:

- a "developing corporation" is a corporation whose head office or principal place of business is in Québec, and whose main activity is the carrying on of an eligible business whose total assets stand between $2 000 000 and $25 000 000 at the end of the corporation's fiscal year preceding the year for which the assistance was granted, whose permanent employees who are not insiders of the corporation are at least five in number throughout the 12 months preceding a share issue. An "eligible business" has the meaning given by the regulations adopted under paragraph e of section 451 of the Taxation Act and usually includes manufacturing, processing, construction, transportation, fisheries, farming, forestry, mining and petroleum businesses.

In addition, corporations whose assets in an eligible business amount to $2 000 000 or less will be deemed to be developing corporations if they operate a business mainly of a community nature recognized by the governement.

- an "eligible share" is a share that is eligible under a stock savings plan, acquired on the primary market after the day of the Budget Speech and before April 1, 1985;
- a "public share issue" is an issue whose shares constitute an investment by way of a prospectus governed by the Commission des valeurs mobilières du Québec and includes, among others, an issue of treasury shares to the corporation's employees or shareholders.

The Investor

At the present time, only common shares with voting rights are eligible for a stock savings plan. In order to promote diversification of sources of equity financing for developing corporations, non-callable preferred shares, convertible at the shareholder's pleasure into common shares with voting rights in any circumstances at the time of their conversion, and issued through a public share issue after the day of the Budget Speech by these corporations, will be eligible for a stock savings plan.

Furthermore, the stock savings plan will be amended to encourage investors on the public stock market to direct their investments into corporations which have more difficulty in obtaining financing by issuing shares. The amounts now allowable as a deduction for stock savings plans will therefore be modified.

First, the eligible shares of any public share issue by a developing corporation acquired after the day of the Budget Speech, will be eligible for a deduction equal to 150% of their cost.

Second, the amounts now allowable as a deduction for public issues of shares of corporations with assets of $1 000 000 000 or over at the end of their fiscal year preceding the year of the issue will be gradually reduced to 75% of their cost for the year 1984 and 50% starting in 1985.

For eligible shares of other corporations, the deduction will remain at 100% of their cost.

In addition, the present limits for a deduction for a stock savings plan of 20% of earned income and $15 000 less contributions to certain retirement plans will be amended. Starting in 1983, the 20 percent limit will be applicable to the individual's total income less his losses for the year instead of his earned income. A taxpayer who receives a large portion of his income from investments will thus be able to take full advantage of a stock savings plan. The present ceiling of $15 000 will be raised to $20 000 starting in 1984.

The Secondary Market

The federal government has just introduced draft legislation with respect to an Indexed Security Investment Plan (ISIP), which will exempt from taxation the inflationary portion of capital gains on listed common shares of Canadian corporations.

In Québec, the capital gains realized on the securities registered in an ISIP with a broker will be exempt from taxation. On the other hand, the capital losses sustained on such securities will not be allowable as a deduction from income. Moreover, the shares registered in an ISIP will be eligible for a stock savings plan if they meet the eligibility requirements.

Other Changes in the Stock Savings Plan

Other changes to be made in the stock savings plan will:

(1) require that a common share carry a voting right in all circumstances to be eligible for a stock savings plan;

(2) specify that a share will not cease to be eligible for a stock savings plan at the time of a bankruptcy, winding-up, amalgamation or reorganization;

(3) introduce the concept of associated corporation for the purposes of determining the amount of corporate assets and provide for rules to establish the amounts of such assets;

(4) specify the nature of the information to be transmitted to the various parties involved as well as the time the information is to be transmitted.

RESEARCH AND DEVELOPMENT

Tax Credit

At present Québec has two tax measures designed to promote research and development (R&D). First, a deduction for the year in which they are incurred of current and capital expenses for research and development from which both individuals and corporations can benefit; and second, an additional deduction for corporations equal to 50% of such expenses, to the extent that they exceed the average of those incurred over the previous three years. The discussion paper tabled by the federal government at the time the Budget Speech was delivered on April 19, 1983, which proposes in particular the replacement of the 50% additional R&D allowance by an increased tax credit, will be examined and will eventually lead to a decision by the government.

Whatever the ultimate decision regarding the federal proposals, a tax credit will be introduced to promote a greater volume of industrial and scientific R&D in Québec and increase the effectiveness of tax incentives. The credit will be equal to 10% of wages paid in Québec and included in expenses for research and development in Québec after midnight on the evening of the Budget Speech. To assist firms engaged in R&D which have no tax payable in the year, this credit will be refundable. However, governments, municipalities, agencies or corporations at least 90% controlled directly by governments, municipalities or their agencies, and wholly owned subsidiaries of such corporations will not be able to benefit from this credit.

For the purposes of this credit, the expression "research and development (R&D)" will have the meaning recognized by the existing fiscal legislation. This definition generally includes an activity that demands systematic research or investigation of a scientific or technological nature, carried out by means of analysis or experimentation. Other activities considered to be part of research and development are those related to operational research, mathematical analysis, computer programming and psychological research, when they are carried out directly in support of pure research, applied research or development.

Since the credit will be applicable only to that portion of wages entering into R&D expenses, the definition of wages will be expanded to include expenditures reasonably form of fees or wages paid to employees of a corporation making such expenditures on a form of fees or wages paid to employees of a corporation making such expenses on a subcontract basis on behalf of another person would constitue wages included in expenses for research and development for this person if paid to members of the Québec labour force.

This measure will decrease the cost of expenses for research and development in Québec by $26 000 000 for the next 12 months.

Gifts to a Foundation

Persons who make gifts to a foundation for the developement of scientific research which is to be created by the government may accumulate a deduction, equal to 90% of such gifts, applicable against the succession duties their heirs or legatees may be liable to pay. Details concerning this measure are given in the section on succession duties.

COMPETITIVENESS OF QUÉBEC FIRMS

With a view to making Québec firms more competitive, measures will be introduced regarding Quebecers working abroad, business losses, and rolling stock used for production.

Quebecers Working Abroad

As things now stand, when an individual leaves Canada to work abroad for more than 24 consecutive months, the income he earns abroad will generally not be subject to taxation provided he meets certain requirements with respect to the ties of residence he may retain with Canada

If he intends to be away for less than 24 months, he will generally not be granted non-resident status, and any deduction granted to an employee working abroad for at least six consecutive months will be equal to 55% of what he earns working abroad in one year, but not beyond $55 000. This deduction, however, is restricted to employees working abroad for an employer who resides in Canada, or for a foreign subsidiary of that employer. Moreover, the duties which the employee carries out abroad must be related to a contract under which the employer operates a business abroad in connection with exploration for oil, natural gas, minerals or similar resources or the exploitation of these resources, or in connection with an activity in agriculture, construction, installations, or the study or development of projects, or some prescribed activity. Finally, the employee can also work toward obtaining such a contract for his employer or for one of his employer's subsidiaries abroad.

In addition to affecting the competitive position of Québec firms on the international markets — since the principal industrialized countries have tax systems which are very favourable toward their employees working abroad temporarily — the present system of taxation with regard to these employees presents certain administrative problems as to the determination of non-resident status, and unduly influences the length of stays abroad.

In order to improve the competitive position of Québec firms on the international markets, the present system, under which the deduction is equal to 55% of the employment income earned abroad, including indemnities for working in other countries, up to $55 000, is replaced by a system which will make provision for a deduction in proportion to the number of complete months worked abroad in one year, so that income earned abroad by an individual will qualify for a total exemption after one year or more abroad.

Moreover, to take account of the additional costs which employees of this sort must incur while living abroad, indemnities for working abroad will be tax exempt, up to 50% of the basic total wages earned abroad by the employee, the excess to be treated as wages earned abroad.

With regard to deductions at source, the employer will be authorized to reduce these for income earned by such employees, in a proportion equal to the planned duration of the stay abroad.

This new system will cover the same functions, sectors and employers as did the old one. It has the advantage of eliminating the existing six-month and two-year limits, and acknowledges that use of public services will decrease according to the length of time the individual stays abroad. Thus, by becoming progressively non-taxable for a stay of up to one year, the employees concerned will no longer have, for Québec tax purposes, to comply with the restrictions attached to the obtaining of a non-resident status.

For instance, an individual who is earning basic wages of $48 000 and obtains an annual indemnity for working abroad of $24 000 will enjoy, in comparison with the former system, a tax reduction of 32% if he stays abroad for four months; if he stays abroad for eight months, the reduction will be 41%, and if he stays one year or longer the reduction will be 100%. For a stay of six months abroad, the tax reduction, in comparison with the former system, is only 15%. This can be explained by the introduction of the 55% deduction which then prevailed and which held good for up to a stay of two years.

These measures will apply to employees who leave Canada or ask to extend their stay after the day of the Budget Speech, to work abroad temporarily and will reduce their tax burden by some $2 000 000.

REDUCTION OF INCOME TAXED AND OF TAX PAYABLE ACCORDING TO LENGTH OF STAY ABROAD

(Single person; wages: $48 000; annual indemnity for working abroad: $24 000)

1983 taxation year

Length of stay abroad	Deduction regarding income earned abroad		Québec income tax			
	Before Budget	After Budget	Before Budget	After Budget	Reduction	
(months)	(%)	(%)	($)	($)	($)	(%)
2	—	44	11 023	9 471	−1 552	14
4	—	55	12 217	8 341	−3 876	32
6	55	67	7 648	6 507	−1 141	15
8	55	78	6 942	4 009	−2 843	41
10	55	89	6 238	1 442	−4 796	77
12	55	100	5 557	—	−5 557	100
24	100	100	—	—	—	—

Tax Credit for Losses and Loss Carryovers

Under the present rules, any corporation which sustains a business loss for a taxation year may obtain a refundable tax credit equal to 3% of the portion of that loss which could not have been carried back to the previous year; the credit, however, cannot exceed the amount payable as tax on capital. The excess of the credit which cannot be claimed in the year of the loss is carried forward as a credit, subject to the same restrictions, to the five subsequent taxation years.

In order to improve the financial position of corporations for the years during which they sustain business losses, the limit imposed on the amount which a corporation can claim as a refundable tax credit for losses sustained for a taxation year ending after the day of the Budget Speech is increased to three times the amount of its tax on capital. Similarly,

corporations with an excess credit from a previous year will be allowed, with respect to that excess, to take advantage of this new limit for a taxation year ending after the day of the Budget Speech.

Finally, the five-year period during which such a credit may be carried over will be increased to seven years.

Furthermore, since this tax credit for losses has been introduced for the purpose of speeding up the recovery of losses sustained during previous years rather than waiting until the firm makes sufficient profits, an amendment will be brought in to the effect that only corporations which are not exempt from income tax may claim this refundable credit for losses. In this way, as of their first taxation year ending after the day of the Budget Speech, tax-exempt corporations will no longer be able to claim such a credit.

On April 19, 1983, the Minister of Finance of Canada announced during his Budget Speech that the period for carrying over losses suffered by taxpayers would be extended. Since this measure will improve the resources which corporations operating at a loss have for self-financing, Québec's tax legislation will also be amended by the introduction of provisions similar to those to be incorporated into the federal tax legislation as concerns non-capital losses, net capital losses, restricted farm losses, and losses sustained by a farming or fishing business. This measure will apply on the same dates and for the same purposes as in the federal tax legislation.

All these changes in fiscal policy with respect to losses will permit these taxpayers to reduce their tax burden by $20 000 000 in 1983-1984, while increasing their cash flow by the same amount.

Rolling Stock used in Production

At present, with the exception of rolling stock, all production equipment used mainly to produce tangible property is exempt from the retail sales tax.

Considering that a large proportion of the production equipment used in the mining and the forest sectors is made up of rolling stock, changes will be made to the effect that rolling stock used in production and only off the public roads for mining or forest operations will be exempt from the retail sales tax as of midnight the night the Budget Speech is tabled. The rolling stock thus exempted, however, will again become taxable at its value when it is no longer being used for mining or forest operations or when it is used on a public road. In addition, railway equipment other than that used solely inside a mine or a quarry will remain subject to the retail sales tax.

This measure will cut operating costs for the mining and forest industries by some $4 000 000 for the next year.

PERSONAL INCOME TAX

Indexing of Personal Exemptions

Beginning January 1, 1984, personal exemptions will be indexed at a rate of 5%. This will have the effect of reducing revenue from personal income tax by $192 000 000 for the 1984 taxation year.

LEVEL OF PERSONAL EXEMPTIONS
1982 to 1984
(in dollars)

	1982	1983	1984
• Basic personal exemption	4 680	5 030	5 280
• Married person's exemption	3 510	3 770	3 960
• Spouse's maximum income level that would not reduce the married person's exemption	1 270	1 360	1 420
• Personal exemption			
— For persons 65 years of age and over	1 950	2 100	2 200
— For blind and disabled persons	1 950	2 100	2 200
— For children and other dependants:			
• 16 and 17 years of age	720	770	810
• 18 to 20 years of age	1 170	1 260	1 320
• 21 years of age and over, disabled or full-time students	1 170	1 260	1 320
• Maximum level of dependant's income which does not reduce the exemption for children and other dependants	2 600	2 800	2 930

Increase in Contributions to Political Parties

At the present time, the deduction for contributions to authorized political parties in Québec is equal to 50% of the first $100 plus 25% of the next $100, for a maximum deduction of $75 from the amount of tax payable.

For taxation year 1983 and thereafter, the limit of $100 on which the percentages are calculated will be raised to $140, an increase equal to the cumulative rates with regard to the indexing of personal exemptions, totalling 39.8% in 1983, since the personal income tax reform.

DEDUCTION FROM TAX PAYABLE FOR POLITICAL CONTRIBUTIONS DEDUCTIBLE IN QUÉBEC
(in dollars)

	Taxation year	
	1982	1983
• Limit to deductible political contributions	100	140
• Maximum tax deduction		
— 50% of the first portion	50	70
— 25% of the next portion	25	35
— Total maximum deduction	75	105

This measure represents an amount of $1 000 000 for the 1983 taxation year.

Registered Home Ownership Savings Plan (RHOSP)

The funds paid into a Registered Home Ownership Savings Plan after December 31, 1982, are no longer deductible in computing the income of an individual. However, the funds accumulated in the plan continue to be tax exempt when withdrawn if the taxpayer uses them for the purchase of an owner-occupied home. If used for any other purpose, they must be included in the individual's income for the year.

The measure proposed by the Finance Minister of Canada in his Budget Speech on April 19, 1983, allowing the use of funds accumulated in an RHOSP for the purchase of home furnishings is retained for Québec taxpayers as an incentive to use the funds available in their plan during this year of economic recovery.

Thus, RHOSP funds may be used for the purchase or delivery of new household furnishings and electrical appliances between April 19, 1983, and January 1, 1984. Furniture bought before January 1, 1984, but not delivered by that date will continue to be eligible provided the delivery takes place no later than February 29, 1984.

The following home appliances with a unit price of $100 or more and new furnishings may be purchased with tax-exempt RHOSP funds:

1. Furniture for home use;
2. The following appliances for home use:
   - Refigerator and freezer
   - Clothes washer and dryer
   - Dishwasher
   - Stove and oven
   - Vacuum cleaner, floor polisher, carpet shampooer;
3. Drapes, blinds, curtains and interior window shutters;
4. Rugs and wall-to-wall carpets, including the carpet underlay.

A taxpayer will be allowed to use all or part of the accumulated RHOSP funds for the purchase of these items of eligible tangible property without terminating his or her plan.

In addition, taxpayers who do not have an owner-occupied home,who had funds in a RHOSP before January 1, 1983 and who purchase a new owner-occupied home between April 19, 1983, and January 1, 1984, will be eligible for a special deduction in computing their income. This deduction will equal the difference between $10 000 and the RHOSP contributions already deducted, and will be allowed to only one of the spouses. Those making a purchase offer in writing before January 1, 1984, must occupy the home no later than February 29, 1984, and, if the purchase offer for a home is made prior to April 20, 1983, but possession has not been taken by that date, the special deduction may be claimed with respect to the acquisition of such a home.

However, this special deduction may be claimed only by taxpayers who are not eligible for the new grant under the Corvée-Habitation program. For a married couple, the spouse of a taxpayer who receives such a grant will be deemed to have benefited as well.

Taxpayers will be able to lower their home acquisition costs by $5 000 000 through this special deduction.

3% Employment Deduction and Local Councillors

Municipal councillors and school commissioners at present benefit from a tax exemption with respect to the allowance they receive for expenses related to their duties. This

allowance is not taxable providing it does not amount to more than half the income derived from the exercise of these duties but reduces the amount of the 3% employment deduction, whose maximum is $500.

Beginning with taxation year 1983, the tax-exempt allowance of these officers will no longer reduce the amount of the 3% deduction applicable to other employment income.

This measure represents $1 000 000 to these local representatives for taxation year 1983.

Employees Constituted as a Corporation

In his ministerial declaration of December 17, 1982, the Minister of Finance announced that measures would be taken to ensure that there would be no tax benefit to be derived from incorporating a business offering personal services. To that end, a corporation operates a personal service business when the relationship between the principal shareholder and the person for whom the corporation is providing the services could reasonably be considered one of employer to employee.

Such corporations are now subject to a maximum federal tax rate of 36% and generally to a 3% Québec tax rate, for a total tax rate of 39%. Apart from the wages or other benefits accorded the individual in return for the services, these corporations do not benefit from any deduction at either the Québec or federal level in computing income derived from the dispensing of personal services. Moreover, remuneration paid to these corporations continues to be considered wages for the purposes of employer contributions to the health services fund.

For any taxation year ending after the date of the Budget Speech, the income such corporations derive from providing a personal service will be subject to the maximum corporate tax rate of 13%.

This measure will thus reduce the tax advantage in using a corporation in order to operate a business offering personal services.

Taxable Benefit on Group Life Insurance Policies

At present, the portion of group life insurance premiums covering temporary insurance in excess of $25 000 is generally a taxable employment benefit.

The value of this benefit is the amount of the average net premium paid by the employer for insurance in excess of $25 000, less the premium the employee pays with respect to this excess amount.

Beginning with the 1984 taxation year, changes have been made in the method of calculating the premium paid by the employer for the benefit of the employees. In figuring the taxable benefit to an employee of a life insurance premium, the employer will have to use a table based on age rather than on the average net premium of the life insurance policy. This change will better match the real cost of insurance over $25 000 which varies with the age of the insured with the taxable benefit.

Tax Instalments Not Due in Certain Cases

At present, an individual is required to make quarterly payments on the basis of his or her estimated income tax for the year or on the basic provisional prepayment for the preceding year if at least three-quarters of his or her income would have been subject to deductions at source, had it not been for the amount derived from the recapture of a depreciation or the inclusion of the amount realized from the sale of intangible capital

property in income for the year. The taxpayer is often required to pay interest on instalments he or she could not determine in advance.

Beginning with taxation year 1983, this individual will no longer be required to make tax instalments in such circumstances.

SUCCESSION DUTIES AND THE GIFT TAX

Increase of Certain Deductions in the Gift Tax

For successions opened after midnight on the night of the Budget Speech, the exemption generally applicable to all beneficiaries which was granted to speed up settlement of small legacies will rise from $15 000 to $20 000. As for the $85 000 exemption concerning bequests between children and parents, among others, it is raised to $100 000.

Gift to a Foundation for Development of the Arts and Culture and to a Foundation for the Development of Scientific Research

A person who makes gifts to a foundation the gouvernement du Québec intends to create for promoting the arts and culture or for the development of scientific research will be able to accumulate, in an account for this purpose, a credit equal to 90% of the value of the gifts. The account will be indexed yearly according to the pension index provisions of the Act respecting the Québec Pension Plan. Upon that person's death, the heirs will be able to claim this credit against the succession duties they have to pay.

The aggregate of all credits so accumulated will be distributed among the heirs in proportion to the duties each would have had to pay on the value of assets inherited in relation to the total duties payable on the succession, if each had inherited during the year property from this estate only.

Thus, such gifts made by taxpayers subject to the highest marginal rate of tax will generate a tax benefit equal to 150% of the value of the gifts when federal and provincial income tax deductions are added to the succession duties credits.

Each of these foundations will, in addition, be permitted to identify particular areas of activity to which gifts could be assigned. The Minister responsible for Science and Technology and the Minister of Cultural Affairs will publish regulations respecting these two foundations shortly after their creation.

Increase of Certain Deductions in the Gift Tax

In calculating the taxable value of a gift to an individual, the donor is allowed to deduct up to $3 000 in any one year. However, the maximum deduction for all such gifts may not be more than $15 000.

Beginning with 1983, the amounts of $3 000 and $15 000 are increased to $5 000 and $25 000 respectively.

Deduction for Gifts of Agricultural Property

At present, a person making gifts to his children of property used in farming operations or shares in a cooperative or corporation deriving its revenue mainly from farming is entitled, in computing the taxable value of his gifts in a year, to a single deduction during his lifetime of up to $75 000.

As of 1983, the maximum deduction of $75 000 is increased to $100 000. Moreover, gifts of an interest in a farm partnership also become eligible for this deduction.

Lastly, such a donor will now be allowed, on two occasions in his or her lifetime, to make such a gift on condition that the cumulative amounts deducted do not exceed $100 000.

These measures relating to succession duties and the gift tax will reduce the tax burden on individuals by about $11 000 000 for the coming year.

CONSUMER TAXES

RETAIL SALES TAX

Maintenance of the 9% Tax

The retail sales tax, raised from 8% to 9% for the period beginning May 26, 1982, and ending the night of the Budget Speech, remains at 9%.

Maintaining the tax at 9% will represent $237 000 000 in revenue in 1983-1984.

Broadening of the Exemption Base

As of midnight on the night of the Budget Speech, tampons and sanitary napkins will be exempt from retail sales tax. This measure will make possible savings of about $6 000 000 in the coming year.

Moreover, works of art purchased for collections by museums are exempt, through a refund, from retail sales tax as of midnight on the night of the Budget Speech. Museums covered by the present exemption must be designed for public use and be non-profit institutions devoted primarily to cultural or scientific pursuits. This measure will reduce the cost of acquiring works of art and will foster the growth of Québec's cultural heritage.

Sale of Certain Blank Videocassettes

As of midnight on the night of the Budget Speech, the purchase of every blank videocassette of less than 19 mm (¾ in) in width will be subject to an additional tax of $2 per blank videocassette sold in Québec.

This additional tax will generate some $2 000 000 in the first year of its application.

TELECOMMUNICATIONS TAX

Maintenance of the 9% Tax

The telecommunications tax, raised from 8% to 9% for the period beginning June 1, 1982, and ending the night of the Budget Speech remains at 9%.

Maintaining the tax at 9% will represent $10 000 000 in revenue in 1983-1984.

FUEL TAX

Price determination for Propane Gas

Propane gas used as fuel in internal combustion engines is subject to the same tax per litre as regular leaded gas. The price of propane is lower than that of regular leaded gas; consequently, the actual rate of taxation on propane is higher than the general rate of 40% of the retail fuel price.

In order to bring the effective rate of the tax to 40% of the retail price of propane gas used as fuel in an internal combustion engine, the selling price of this fuel used as a basis for

calculating the amount of the tax is set at $0.275 per litre as of midnight on the night of the Budget Speech. In this way the amount of tax applicable to propane gas will decrease from $0.158 to $0.110 per litre.

The price used to calculate the amount of the tax will be set by the Minister of Revenue subsequently on the basis of a representative statistical sampling.

Moreover, any retailer of propane gas who has on hand, at midnight on the night of the Budget Speech, a stock of propane gas used as fuel for which the fuel tax has been paid, may request from the Minister of Revenue the proceeds from the tax reduction by using the form the ministère du Revenu will make available for this purpose.

This adjustment to the fuel tax will reduce the cost to consumers of using propane gas as a fuel by some $2 000 000 during the next year.

Assistance for Service Station Operators in Border Regions

The current formula of assistance for service station operators in border regions has been in effect since January 1982. Its purpose was to help owners of service stations in such regions to face competition from their neighbours across the border following the increase in the fuel tax from 20% to 40% in November 1981.

This formula provides for a reduction of 6 cents per litre in the tax on fuel delivered in a zone located less than 5 km from a contact point with an adjacent province of Canada. This assistance of 6 cents per litre diminishes gradually by units of 5 km, up to a maximum distance of 30 km. With respect to the area bordering on the United States, a set reduction of 3 cents per litre applies up to a distance of 3 km. This formula does not take price changes into account.

As of midnight on the night of the Budget Speech, financial assistance for service station operators in border regions will be established on the basis of a decreasing percentage according to the distance from a point of contact.

In the border regions with Ontario and New Brunswick, the maximum assistance will be 50% of the fuel tax. The following table presents the decreasing rates of assistance by 5 – kilometre zone. With respect to the region bordering the United States, the reduction will be set at 20% of the fuel tax and will apply over a distance of 3 kilometres.

However, the amounts of assistance will only be reviewed for changes of more than 1 cent.

The new formula will increase assistance to service station operators in border regions by $6 000 000.

FINANCIAL ASSISTANCE FORMULA RESPECTING SERVICE STATION OPERATORS IN BORDER REGIONS

Distance from point of contact	Former formula Ontario and New Brunswick	New formula Ontario and New Brunswick	
(km)	(¢/litre)	(%)	regular gas (¢/litre)
0 — 5	6	50	7,9
6 — 10	5	42	6,6
11 — 15	4	34	5,4
16 — 20	3	26	4,1
21 — 25	2	18	2,8
26 — 30	1	10	1,6
31 and over	—	—	—

OTHER MEASURES

Mining Depletion Allowance

In his Budget Speech on April 19, 1983, the Minister of Finance of the Government of Canada proposed that, with respect to eligible exploration expenditures incurred after April 19, 1983, the earned depletion at the rate of $1 for every $3 of eligible expenditures be deductible from all sources of income without, however, exceeding 25% of the taxpayer's income. Hitherto, earned depletion could only be deducted up to the equivalent of 25% of the resource profits. In Québec, this deduction may reach 33⅓% of resource profits in the case of a mining business.

In addition to various tax measures respecting the mining sector which are generally found in the other provinces, Québec grants an additional deduction of 66⅔% to individuals with regard to certain exploration expenses incurred in Québec in order to stimulate investment in exploration.

In order to bring the Québec and federal tax systems into line, it will also be possible to deduct the earned depletion from income from all sources in Québec. However, with respect to exploration expenses incurred in connection with a mining business after April 19, 1983, the individual who elects to claim the additional deduction of 66⅔% with regard to these expenses will not be able, as before, to claim this deduction for earned depletion. Since earned depletion in Québec was previously limited to 33⅓% of resource profits, the new limit will remain 33⅓% but will be applied to income from all sources. This measure will cost $2 000 000 and will benefit those who invest in mining exploration.

Depreciation of Capital Costs of Certain Films

Following the Minister's declaration of December 17, 1982, respecting the concordance of Québec measures with federal ones, the allowance in respect of depreciation for a film which has been certified Canadian by the Secretary of State of Canada — 100% of the capital cost — will, beginning in 1984, drop to 50% for the year in which the film is acquired, and the undepreciated capital cost may be totally claimed the following year.

In order to foster film production in Québec, the allowance for depreciation will remain at 100% of the capital cost for the year in which the film was acquired for all investments in a film which has been certified as a Québec film by the Institut québécois du cinéma.

Moreover, as of the 1983 taxation year, these films will entitle the investor to an additional deduction, in personal income tax, equal to 50% of the capital cost. To this end, the capital cost of an investment in any film may not exceed the amount the taxpayer has paid, or has unconditionally undertaken to pay, with respect to the acquisition of this film.

Abolition of Certain Licences

Certain licences issued under the Licences Act and included in the following list will be abolished:

- licences to own and operate a place of amusement, such as a theatre, concert hall, music hall, moving picture theatre, hall for dancing, circus, equestrian show, menagerie, caravan of wild animals, exhibitions, baseball field, parks, place where a festival is held, skating rink, or any other place or hall where, in consideration of a payment made for that or any other purpose, a person attends or participates in an exhibition or an entertainment given or a game played;
- the licence for the film exchange;
- the licence for doing business as a travelling exhibitor;
- the auctioneer's licence;
- the licence for operating and owning a public laundry;
- the licence for operating a loan office;
- the licence for carrying on business as a pawnbroker;
- the licence for carrying on business as a second-hand dealer;
- the licence for owning or controlling an automatic distributor.

The abolition of the licences in question will come into effect on the thirtieth day of April 1984, the day on which licences generally expire. The operating costs of holders of these licences will be reduced by about $1 000 000.

Instalment Payments for Corporations

At present, corporations subject to income tax or tax on capital, as the case may be, are required to make monthly statutory payments with respect to the taxes payable for a taxation year. As there is no minimum threshold under which such monthly payments are not required, certain corporations are required to send trifling amounts to the ministère du Revenu on a monthly basis.

To alleviate the administrative burden which the payment of their taxes represents for corporations, monthly payments of less than $50 under the Taxation Act will no longer be required.

This measure will apply to any instalment payment that a corporation is required to pay after the day on which the Budget Speech is tabled.

Sale of Wine in Grocery Stores

The sale of designated wines in grocery stores is currently carried on through distributors who act as agents of the Société des alcools du Québec, and receive a commission set at 6% of the selling price of branches, excluding the retail sales tax. Store owners benefit from a discount of 16.5% on this price when they purchase designated wines.

The forthcoming implementation of measures aimed at liberalizing the system of producing and selling alcoholic beverages must be accompanied by changes in the financial

conditions between the Société des alcools du Québec and authorized grocery store owners and distributors.

The Act respecting the Société des alcools du Québec will be amended in order to enable authorized distributors to buy from the SAQ for the purpose of reselling to grocery store owners. The SAQ will establish the wholesale prices and will leave it to distributors and store owners to set their own profit margins. The SAQ's wholesale prices will be set by applying to the cost of sales a markup rate lower by 20 percentage points than the one used for the same categories of products sold in the branches.

This method based on the cost of sales rectifies the flaw in the current system, in which the SAQ passes on to its business partners 22.5% of the increases used in the setting of retail prices. This formula will guarantee authorized dealers and grocery store owners the covering of their distribution and marketing costs with respect to wine, and will, moreover, enable them to increase their profit margin by setting retail prices which are higher than those in the branches. The price in branches of the SAQ is, however, maintained as the minimum price which must be observed in grocery stores.

This policy of increasing the price of products sold by the SAQ to authorized distributors will apply as soon as the relevant amendments provided for in the Act respecting the Société des alcools du Québec come into effect.

CONCORDANCE WITH FEDERAL LAWS AND REGULATIONS

Bill C-139, assented to on March 30, 1983, has undergone a number of amendments since it was given first reading on December 7, 1982. On April 5, 1983, the federal Minister of Finance proposed a further series of technical changes in the Income Tax Act, which could have been incorporated into Bill C-139. However, these measures were not included and are now part of draft legislation which will be tabled later in the House of Commons.

Legislation aimed at incorporating concordance measures announced by the Québec Minister of Finance on December 17, 1982, will include amendments which were made to Bill C-139 before it was passed by Ottawa on March 30, 1983, and the technical changes announced by the federal Minister of Finance on April 5, 1983.

On April 19, 1983, the Minister of Finance of the Government of Canada tabled in the House of Commons Notices of Ways and Means Motions aimed at amending the federal Income Tax Act and the 1971 Income Tax Application Rules. In this regard, Québec tax legislation and regulations will be amended in order to bring the federal and Québec tax systems more closely into line. However, these concordance measures will only be adopted after the passing of any federal legislation arising from these Notices of Ways and Means Motions and will apply on the same dates as they will for the purpose of federal income tax.

The measures aimed at bringing Québec legislation and regulations into line with federal ones appear in the following list. Some of them have already been mentioned in this Appendix. Such is the case, for instance, with respect to funds withdrawn from a Registered Home Ownership Savings Plan, the extension of the carryover period with respect to business losses and net capital losses and mining depletion allowances.

On the other hand, certain provisions announced by the federal government have not been retained because they will be studied in the White Paper on the taxation of individuals. Such measures are those related to the 3 percent employment deduction, and the standard $100 deduction for charitable donations.

Other measures were not retained, either because current Québec legislation is satisfactory in this respect, as is the case for the increase in the maximum deduction for child care expenses (BR 7a)*, or because they do not correspond to the characteristics of our tax system, as is the case for the following measures:

- Child Tax Exemptions (BR 18);
- Federal Tax Credit (BR 20);
- Political Contributions (BR 24);
- Overpayments of Child Tax Credits (BR 27);
- Interest Relating to Carry-Backs (BR 26).

Lastly, certain measures have not been retained because our tax system does not contain the corresponding provisions, as is the case for the Part IV Tax (BR 30), the Investment Tax Credit (BR 22 and 23), the Child Tax Credit (BR 19) and the Special Recovery Share-Purchase Tax Credit (BR 31), and the measure arising from it (BR 27).

Concordance Measures

Québec tax legislation and regulations will be amended to integrate into them, while adapting them according to their general principles, federal measures respecting:

1. Forward Averaging (BR 1);
2. Crown Royalties (BR 4);
3. the deduction of any repayment by a taxpayer of amounts included in computing his income (BR 5);
4. the application of listed-personal-property losses and net capital losses to the three years preceding and the seven years following the loss year (BR 6 and BR 16);
5. the provision of similar rules for men and women with respect to their eligibility to deduct child care expenses and the restriction of the deduction in most circumstances to the parent or supporting individual having the lower income (BR 7 (b) and (c));
6. Canadian exploration expenses, Canadian development expenses and Canadian expenses related to petroleum and gas (BR 8, 9 and 11);
7. joint exploration corporations (BR 10);
8. the repeal of provisions of the Act relating to the inclusion of additional amounts in computing the income of persons who, after April 30, 1983, sell aviation turbine fuel used on international flights (BR 12);
9. the rollover of shares of a family farm corporation (BR 13);
10. the application of non-capital losses and restricted farm losses to the three taxation years preceding and respectively the seven and ten taxation years following the loss year (BR 15 and 17);
11. the Foreign Tax Credit (BR 21);
12. the use of funds from a Registered Home Ownership Savings Plan (BR 25);
13. the payment, by a taxpayer, of interest on a refund or application of any overpayment of tax in excess of the amount to which he was entitled (RB 28);

* References in brackets give the corresponding number of the Notices of Ways and Means Motions of the federal government, April 19, 1983.

14. the recovery of interest paid to a taxpayer in respect of an overpayment of tax and to the deduction in the computation of the taxpayer's income of the interest thus refunded (BR 29);

15. the reduction of the adjusted cost base of a share with respect to which a tax credit is earned (BR 31 (b));

16. the broadening of certain provisions respecting the deduction by a successor corporation of certain exploration expenses, development expenses and expenses related to mining assets (ITAR)*.

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* Notice of Ways and Means Motion to Amend the Income Tax Application Rules, 1971, April 19, 1983.

APPENDIX II

Net Financial Requirements of the Provinces

The table which follows shows the net financial requirements of the provinces both in millions of dollars and adjusted as though each province had the same population as Québec. The data used were taken from documents published by the provinces but have been adjusted to exclude transactions related to sinking funds and to hydroelectric firms, in order that these data be more comparable to the net financial requirements of the gouvernement du Québec. In addition, the revenue of the Alberta Heritage Fund has not been taken into consideration.

Thus, although differences exist between the financial organization and accounting practices in the various provinces, the data given below make it possible to compare the financial position of the provinces on the basis of each one's financial framework.

NET FINANCIAL REQUIREMENTS OF THE GOVERNMENTS OF THE PROVINCES FOR THE 1982-1983 FISCAL YEAR

	Net financial requirements, excluding Hydro	Population at June 1, 1982	Net financial requirements in terms of Quebec population
	(millions of $)	(thousands)	(millions of $)
Newfoundland	– 210,0[1]	570,9	– 2 380,0
Prince Edward Island	– 57,0[1]	122,8	– 3 003,3
Nova Scotia	– 517,1[1]	852,8	– 3 923,3
New Brunswick	– 556,8[1]	700,9	– 5 140,1
Quebec	– 2 241,2	6 470,3	– 2 241,2
Ontario	– 2 676,0	8 699,5	– 1 990,3
Manitoba	– 576,9	1 035,9	– 3 603,4
Saskatchewan	– 967,0	981,4	– 6 375,4
Alberta	– 2 395,0	2 315,1	– 6 693,6
British Columbia	– 1 420,0	2 783,3	– 3 310,1
Total	**– 11 617,0**	**24 532,9**	**– 3 063,9**

1 Corrected to exclude sinking funds

N.B. Data for the provinces were calculated on the basis of those contained in the budget outlines for 1983-1984, except for New Brunswick Third Quarter Report, 1982-1983 Budget, March 1983), Ontario (Ontario Finances, December 31, 1982) and British Columbia (Quarterly Financial Report, Fiscal Year 1982-1983, Nine months, April-December 1982).

APPENDIX III

Financial Position of the Gouvernement du Québec — Medium-Term Prospects

FINANCIAL POSITION OF THE GOUVERNEMENT DU QUÉBEC — MEDIUM-TERM PROSPECTS

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Introduction

Despite the fact that the evolution of the economy has been singularly difficult to forecast over the past few years, preparation of a long-range financial framework nevertheless remains an indispensable management tool, for it makes it possible to assess the extent to which the Québec government will have, providing the existing tax structure is maintained, the resources necessary to meet the deadlines arising from its financial commitments and ensure that present services are maintained.

Medium-Term Economic Prospects

Québec's economic performance between 1984 and 1986 will be closely tied to the growth of its principal trading partners, particularly the other provinces of Canada and the United States. Most analysts expect that growth will be moderate over the next few years, by comparison with periods of recovery during the preceding decades, and characterized by a marked slowdown of inflation as a result of the continued restrictive monetary and fiscal policies of most industrialized countries.

Despite the extent of the recession that has hit Québec and the rest of North America, Québec has the necessary means to take part in this medium-term expansion in production, employment and trade. It is of course true that some sectors have seemed to be especially vulnerable to high interest rates and to the drop in demand, in particular housing construction, production of durables and mining. Several firms have had to close their doors. On the other hand, some industries, primarily in the manufacturing sector, have been able to offset the disastrous effects of the recession in dynamic fashion by investing, introducing technological changes or developing new markets.

In the short term, Québec's economic recovery will be slowed by the fact that the rate of savings of consumers will remain high, consistent with the prudence they have shown over recent years. Similarly, private sector investment will not be as vigorous as might have been wished, by reason of the present low rates of capacity utilization. Over the medium term, however, these negative factors will gradually fade, and household demand should evolve along a path determined by increased income and demographic growth. Growth of investment in the private sector will also be stimulated by an improvement in the financial position of firms and an increase in sales, and the plan of action announced in the Budget Speech. On the other hand, the comparatively lower proportion of government expenditure and capital expenditure in the public sector will contrast with what was observed in the 1970s, in keeping with the budgetary cutback policy announced, and given the reduction of capital expenditure by Hydro-Québec. Nevertheless, the government plan to accelerate investment in the public sector will moderate this impact.

All these factors could well result in a slower growth of domestic demand than in the 1970s. This, however, should be more than offset by the continued penetration of foreign markets by Québec firms. This anticipated favourable evolution is part of the continued development of new markets and increase in exports which for some years have constituted the key factor in the evolution of Québec's economy.

Québec's exports counted for a growing share of the Canadian total during the last part of the 1970s, and this certainly reflects an improvement in the competitive position of Québec firms and an increase in the sectors centred around exports: transportation equipment, machinery, primary metals and wood processing. Québec's relative performance in productivity was better than that recorded in the other provinces of Canada in recent years, and it should stay that way over the medium term.

The competitive position of Québec firms will also be enhanced by an improved utilization of the comparative advantages derived from our many and varied natural resources (forests, mineral resources, hydroelectric potential, and so on). And more firms have set themselves up to exploit these natural resources, or to use them in processing such products as pulp and paper and aluminum. Québec has also taken a technological and commercial lead in a number of other sectors such as those of transportation and heavy electrical equipment, production goods, and consulting engineering. As international trade becomes freer, Québec firms enjoying comparative advantages will be able to have access to new markets.

The government's economic policy, as laid down in the Budget Speech, will support this anticipated recovery; it can be foreseen that, over the medium term, economic growth in Québec will be above that observed during the last part of the 1970s. This recovery policy involves:

— accelerating private and public investment;

— increasing exports;

— injecting additional amounts into job creation programs;

— implementing programs which will redirect the Québec economy toward high-technology industries;

— tax measures to support business firms' expenditures for research and development of new products and new processes, for improving their financial structure and for reducing costs.

Within this framework, the average annual growth rate of Québec's economy should stay at 3.5% from 1983 to 1986. The average annual growth of employment should be around 2.7%. While this performance is better than what was observed between 1976 and 1981, it will still not suffice to bring the rate of unemployment down to an acceptable level. Moreover, the expected drop in the price of imports and a slight increase in the price of oil will likely reduce inflationary pressures.

Table 1

MEDIUM-TERM ECONOMIC PROSPECTS IN QUÉBEC
(average annual percentage growth rate)

	1976-1981	1981-1986		
		Period as a whole	Sub-period	
			1981-1983	1983-1986
Gross domestic product	10.7	7.7	6.1	8.7
Real domestic product	1.9	1.2	−2.2	3.5
Consumer prices	9.7	6.9	8.7	5.7
Average weekly earnings	9.6	7.8	8.6	7.2
Salaries and wages	10.6	6.9	4.0	8.9
Retail sales	9.6	7.7	4.9	9.5
Employment	1.8	0.6	−2.6	2.7
Rate of unemployment*	10.2	13.4	14.1	13.0

* Percentage level

Medium-Term Financial Framework of the Gouvernement du Québec

The projection of the financial framework in the 1982-1983 Budget Speech indicated that the budget deficit would total $2.9 billion in 1983-1984 and $2.7 billion in 1984-1985. Net financial requirements were expected to stand at $1.8 billion and $1.6 billion respectively. The new projection shows deficits and financial requirements that are higher than previous estimates, partly as a result of the effects of the latest recession on the foreseeable growth rate of own-source revenue and the continuing high cost of social programs.

Budgetary Revenue

The government's own-source revenue is closely tied to changes in economic aggregates: total payroll, corporate profits, retail sales and oil prices... However, it is impossible to derive a single elasticity factor for own-source revenue in terms of the gross domestic product since the level of this factor is closely related to the behaviour of components of growth in the gross domestic product: real growth or inflationary pressures, rise in average earnings or in employment. The projection of own-source revenue for the 1983-1984 to 1985-1986 period must be analysed in the light of these imponderables.

Table 2

EVOLUTION OF BUDGETARY REVENUE AND COMPARISON WITH GROWTH IN GDP

(in millions of $)	1980-1981	1981-1982	1982-1983	1983-1984	1984-1985	1985-1986
Own-source revenue	10 722	12 910	13 878	15 135	16 535	18 345
% change	13.4	20.4	7.5	9.1	9.3	10.9
Federal transfers	3 972	4 572	5 277	5 975	5 925	6 200
% change	3.9	15.1	15.4	13.2	−0.8	4.6
Budgetary revenue	14 694	17 482	19 155	21 110	22 460	24 545
% change	10.7	19.0	9.6	10.2	6.4	9.3
% growth of GDP*	10.4	12.6	5.0	7.3	9.4	8.2

* Percentage of GDP for calendar year ending three months before the end of the relevant fiscal year.

Over the next few years, the growth rate of own-source revenue will be more moderate than that observed toward the end of the 1970s, as a result of a comparatively slower increase in the nominal gross domestic product, stemming primarily from the tapering off of inflationary pressures. On the whole, however, this growth rate will remain slightly above that of the GDP.

In 1983-1984, the anticipated growth of own-source revenue will be only 9.1%; it will then gradually rise to 9.3% and 10.9% respectively in 1984-1985 and 1985-1986, as opposed to an annual average growth of 12.6% for the 1977-1978 to 1981-1982 period.

The evolution of federal transfers over the next three years will be marked by the nature of the federal legislation governing fiscal transfers applicable to the 1982-1987 period. According to the most recent estimates, in 1983-1984 the new provisions will mean a loss to Québec of $368 million in equalization payments, and $235 million for established programs. In 1983-1984 this loss will be more than offset by a transitional guarantee which should yield $542 million and payments of arrears totalling $204 million. This makes it possible to bring the growth rate of federal transfers up to 13.2%.

In subsequent years, however, Québec will feel the full impact of the most recent decisions of the federal government with regard to fiscal transfers, since the transitional guarantee will come to an end as will the payments of arrears. Thus the growth rate of federal transfers will become negative in 1984-1985 and will be held to 4.6% in 1985-1986. This cannot help but have a serious effect on the budgetary position of the gouvernement du Québec.

Budgetary Expenditure

The budgetary situation has improved appreciably over recent years, with two successive programs of cutbacks in expenditures, amounting to $840 million in 1981-1982, and $670 million in 1982-1983, to which has been added a rollback in remuneration of some $500 million during the past year. As a result, the rate of increase in budgetary expenditure dropped from 16.4% in 1980-1981 to 9.3% in 1982-1983.

The rate of increase in budgetary expenditure in 1983-1984, which is higher than the increase in the gross domestic product and the Consumer Price Index, reflects the considerable efforts made to stimulate the economy, above and beyond the growth in the cost of existing programs. However, given that those efforts are temporary, the projection shows slower growth in expenditure beginning in 1984-1985.

Table 3

COMPARISON OF THE EVOLUTION OF EXPENDITURE WITH CERTAIN INDICATORS

Québec	1976 /77	1977 /78	1978 /79	1979 /80	1980 /81	1981 /82	1982 /83	1983 /84	1984 /85	1985 /86
Total expenditure (in millions of $)	10 717	12 045	13 387	15 110	17 592	20 393	22 290	24 295	25 710	27 395
% change	16.1	12.4	11.1	12.9	16.4	15.9	9.3	9.0	5.8	6.6
% growth in GDP*	16.3	8.0	10.8	11.8	10.4	12.6	5.0	7.3	9.4	8.2
% inflation (Can.)*	7.5	8.0	8.9	9.1	10.2	12.5	10.8	6.0	5.5	5.9

* Percentage for calendar year ending three months before the end of the relevant fiscal year

Over the next three years, budgetary management should be facilitated by a number of new parameters. On the one hand, unless there is a new surge in interest rates, the 20% to 35% rate of growth experienced by debt services should return to more tolerable, although high, levels.

On the other hand, the growth in the total public and parapublic sector payroll will be much slower than under earlier collective agreements. In addition to the graduated freeze in wages and salaries until January 1984, at June 1982 levels, the new conditions governing most unionized and unionizable employees provide for increases without advancing on the scale equal to the rate of growth in the CPI less 1.5% in subsequent years. To this must be added the cost of advancing on the scale, where applicable, beginning in January 1984, which represents on the total payroll an average yearly increase of 1.5%. Moreover, the working conditions of public and parapublic sector employees will allow for greater flexibility in management, which should bring about improved productivity and consequently a reduction in the growth of costs.

Nonetheless, the costs of certain programs will inevitably grow more quickly than the CPI. The most important among them are social aid, debt services, health insurance, and the government's contributions to various retirement plans.

Indeed, in order to achieve the objective of maintaining growth in costs which is lower than that in the CPI, it will be necessary to at least pursue during the entire period a program designed to improve productivity similar to that applied in 1983-1984. The latter program consists in gradually reducing staff in government departments, on the one hand, and in reducing the level of operating expenditures for items other than wages and salaries, on the other. The data in Table 3 are obtained by taking into account these different parameters and simply projecting the evolution of existing expenditure programs.

Financial Framework

Given a constant tax structure, including the measures announced in the Budget Speech, and taking into account the projection of expenditures mentioned above, it is possible to project the evolution of the government's financial position. The results appear in Table 4.

Table 4

GOUVERNEMENT DU QUÉBEC
SUMMARY OF FINANCIAL TRANSACTIONS
(in billions of dollars)

	1980-1981	1981-1982	1982-1983	1983-1984	1984-1985	1985-1986
Budgetary transactions						
— Revenue	+14.7	+17.5	+19.2	+21.1	+22.5	+24.5
— Expenditure	−17.6	−20.4	−22.3	−24.3	−25.7	−27.4
— Deficit	− 2.9	− 2.9	− 3.1	− 3.2	− 3.2	− 2.9
Non-budgetary transactions — Balance	+ 0.6	+ 0.8	+ 0.9	+ 1.0	+ 1.0	+ 1.2
Net financial requirements	− 2.3	− 2.1	− 2.2	− 2.2	− 2.2	− 1.7

N.B.: A (−) sign indicates a financial requirement and a (+) sign, a source of financing.

It is to be noted that the deficit and net financial requirements will remain practically at their 1982-1983 level during the next two years; they should drop in 1985-1986. This means that, in relation to the gross domestic product, as shown in Table 5, the deficit and net financial requirements will decline very appreciably over the next three years. Thus, elbow room will gradually become available at the end of the period.

Table 5

GOUVERNEMENT DU QUÉBEC
BUDGETARY DEFICIT AND NET FINANCIAL REQUIREMENTS AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT

	1980-1981	1981-1982	1982-1983	1983-1984	1984-1985	1985-1986
Deficit	4.1	3.7	3.8	3.6	3.3	2.8
Net financial requirements	3.3	2.7	2.7	2.5	2.3	1.6